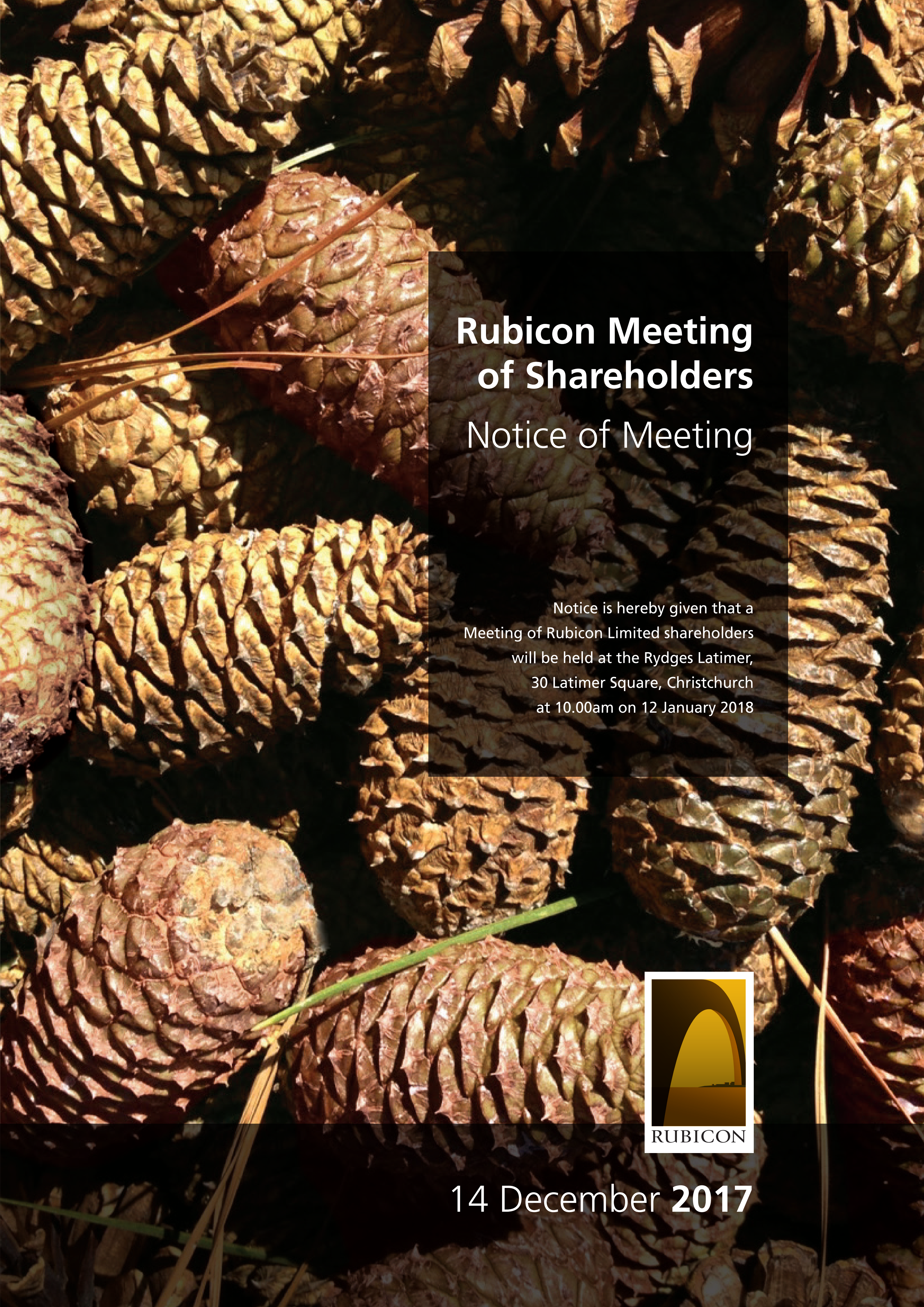
# Rubicon Meeting of Shareholders

## Notice of Meeting

Notice is hereby given that a Meeting of Rubicon Limited shareholders will be held at the Rydges Latimer, 30 Latimer Square, Christchurch at 10.00am on 12 January 2018



RUBICON

14 December **2017**

# Rubicon Limited Meeting

## IMPORTANT INFORMATION

This document includes the following information:

- a letter from the Independent Directors of Rubicon Limited;
- a summary of the **Proposed Transaction**: the proposed sale by Rubicon TC Holdings LP of its 44.88% interest in the Tenon Clearwood Limited Partnership (**TCLP**), for which shareholder approval is being sought at the Meeting;
- a description of the business of the Meeting;
- a detailed explanation of the Proposed Transaction; and
- an independent report prepared by Grant Samuel & Associates Limited in relation to the Proposed Transaction.

### VOTING/PROXY FORM

Accompanying this document is the Voting/Proxy Form, to enable shareholders to vote on the resolutions by:

- attending the Meeting; or
- lodging a postal vote; or
- appointing a proxy to vote on their behalf at the Meeting.

## IMPORTANT DATES

All times are given in New Zealand time.

| | |
|---|---|
| 5.00pm, 5 January 2018 | Record date for determination of voting entitlements for the Meeting |
| 10.00am, 10 January 2018 | Latest time for receipt by Rubicon Limited of postal votes and proxies |
| 5.00pm, 10 January 2018 | Final Purchase Price Per Share advised, following calculation of TCLP net debt at 31 December 2017 |
| 10.00am, 12 January 2018 | Meeting |
| 10.00am, 31 January 2018 | Closing of the Proposed Transaction |

### FORWARD-LOOKING STATEMENTS

*There are statements in this Report that are 'forward looking statements.' As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Rubicon, and our Tenon Clearwood Limited Partnership (TCLP) and ArborGen investments, many of which are beyond our control. As a result, actual results and conditions may differ materially from those expressed or implied by such statements.*

*In particular, TCLP's operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it operates (particularly Australasia, Europe, and North America). Fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repairs, remodelling and additions to existing homes, new housing starts, relative exchange rates (particularly the NZ dollar, the Euro, and the US dollar), interest rates, and profitability of customers, can each have a substantial impact on TCLP's results of operations and financial condition. Other risks include competitor product development, product demand and pricing, input costs, log availability, and customer concentration risk.*

*ArborGen's risks and uncertainties include (in addition to those noted above in relation to TCLP) - the global markets and geographies in which it operates (particularly South America, North America, and Australasia), intellectual property protection, regulatory approvals, public and customer acceptance of genetically engineered products, the rate of customer adoption of advanced seedling products, the success of ArborGen's research and development activities, weather conditions, cone and seed inventory, biological matters, and the fact that ArborGen's annual crops and seed orchards are not the subject of insurance cover.*

*As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.*

***All references in this document to currencies are as stated – i.e. US$, NZ$ and Euro.***

# Letter from Independent Directors

Dear Shareholder

We are pleased to invite you to attend a Meeting of Shareholders of Rubicon Limited (**Rubicon**), which will be held at the Rydges Latimer, 30 Latimer Square, Christchurch, commencing at 10.00am on 12 January 2018 (New Zealand time). Enclosed is the Notice of Meeting which outlines the business to be conducted. If you are unable to attend the Meeting, you are encouraged to complete and lodge your Voting/Proxy Form (either by post or by fax) so that it reaches the registered office of the Company, or the office of the Share Registry, no later than 10.00am on 10 January 2018 (New Zealand time).

At the Meeting, the resolution shareholders will be given the opportunity to vote on relates to the proposed **Sale** of Rubicon's 44.88% shareholding interest in TCLP (the **Proposed Transaction**), the vehicle that now owns the previous Tenon clearwood operation. This investment is owned by Rubicon's wholly-owned subsidiary, Rubicon TC Holdings LP (**Vendor**).

The proposed **Purchasers** of Rubicon's TCLP interest are –

- Dorset Management Corporation (an affiliate of Knott Partners LP) (**Knott**), as to 20.0%
- Libra Partners NZ, LLC (an affiliate of Libra Fund LP) (**Libra**), as to 20.0%
- Existing TCLP Limited Partners as to 4.88%

Under the governing TCLP Partnership Agreement (**LPA**), existing Limited Partners have pre-emptive rights should Partners wish to sell down their ownership interests. All existing Partners have formally agreed to waive their pre-emptive rights over the 40.0% (combined) that is to be sold to Knott and Libra, and will participate (or not) according to their pre-emptive rights over the 4.88% balance of Rubicon's shareholding interest. We believe the 4.88% will be fully acquired by existing TCLP Partners.

The negotiated **Purchase Price** for the Sale is US$14.2 million (the cost of Rubicon's investment in TCLP made earlier this year) plus Rubicon's share of the reduction in TCLP's Net Debt in the period from 28 April 2017 (the date of Rubicon's investment into TCLP) through to 31 December 2017. As this latter amount will not be known until 10 January 2018, the final Purchase Price can only be estimated at this stage, but it is expected to be circa US$15.3 million (net of US$0.7 million dividend to be received by Rubicon prior to Closing). As we will need to wait until January to finalise that number the exact Purchase Price will not be known until then, and as a result the **Closing** will not occur until 31 January 2018.

The strategic rationale for the Proposed Transaction is three-fold, and can be summarised as follows –

- Rubicon needs to make the final two deferred-settlement payments in relation to the recent acquisition of ArborGen, totalling US$15 million. In addition, Rubicon also needs to repay US$6 million of subordinated debt notes on 1 July 2018. Rubicon Limited had unrestricted cash of US$12.5 million as at 30 September 2017 (i.e. as per our year-end Audited Financial Statements). Closing of the Proposed Transaction will ensure there are no funding calls on Rubicon shareholders in order to be able to make these payments, which in turn should remove any share-price 'overhang' that might exist today in relation to funding uncertainty;

- Once our TCLP investment is sold, Rubicon will be 100% focused on ArborGen, as that will then be our only investment. The Sale will then make Rubicon a 'pure-play' for investors on the ArborGen business upside, and with Rubicon's financials moving forward then only being ArborGen-based, investors will have greater transparency of ArborGen's financial results. These two factors should enhance the attractiveness of the stock to a wider pool of investors; and

- Although not yet finalised, we believe that once the Sale of our TCLP investment has been settled, we will then be in a position to achieve significant cost-out / savings of up to US$2 million pa (pre restructuring costs), depending on the final operating structure and model chosen.

We believe that these three factors – the removal of any overhang in the stock price relating to uncertainty as to funding source of the deferred ArborGen acquisition and subordinated debt payments, simplifying Rubicon to be a pure-play on the ArborGen business, and the achievement of cost savings, will all be beneficial to building positive momentum in the RBC share price.

Given David Knott and Ranjan Tandon are directors of Rubicon and also principals of Knott and Libra respectively (which will each acquire 20.0% of TCLP under the Proposed Transaction), they are treated as related parties to the Proposed Transaction. To ensure the Proposed Transaction is fair to other Rubicon shareholders, the Board of Rubicon established an Independent Committee to manage the Proposed Transaction. The Independent Committee, comprises independent directors George Karaplis and Steve Kasnet, and specifically excluded David Knott, Dave Knott Jr and Ranjan Tandon as their funds and associates own 45.9% of Rubicon's issued shares. To assist the Committee, and in order to provide an independent assessment for shareholders, the Independent Directors employed Grant Samuel to prepare an Independent Report to Rubicon's shareholders (other than to Knott and Libra) on the merits of the Proposed Transaction. Grant Samuel was selected because they understand the underlying TCLP clearwood business very well, having valued the business twice in the past 12 months in relation to the two Tenon business sale transactions (the last report was prepared earlier this year).

The Grant Samuel Independent Report is included in this documentation to Rubicon shareholders. In section 5.1 of that Report, Evaluation and Summary of the Proposed Transaction, Grant Samuel concluded –

*"In Grant Samuel's opinion, the full underlying enterprise value of TCLP is in the range of US$51.3 – US$61.5 million. Rubicon's pro rata share of the full underlying value is US$13.6 – US$18.2 million. The consideration for the Proposed Transaction is forecast to be approximately US$15.3 million which is within Grant Samuel's assessed range of Rubicon's 44.88% share of TCLP's full underlying value."*

And in Section 5.8 of the Report, Fairness of the Proposed Transaction for the purposes of the NZX Listing Rules, Grant Samuel concludes:

*"In Grant Samuel's opinion, based on the analysis of the merits outlined above, the terms of the Proposed Transaction are fair and reasonable to the shareholders of Rubicon not associated with Knott and Libra. In Grant Samuel's opinion, the information to be provided by Rubicon to its shareholders is sufficient to enable holders of those shares to understand all the relevant factors and make an informed decision as to the sale of Rubicon's interest in TCLP."*

The Independent Committee did not deem it necessary to run a third party sales process in relation to Rubicon's interest in TCLP. The rationale for that decision was based on the fact that Tenon had earlier this year been through an exhaustive 18-month sales process for the Clearwood business supported by an international investment banker, and concluded that the TCLP consortium provided the best value outcome. Given that the consideration offered under the Proposed Transaction is the same as that which Rubicon invested into TCLP on 28 April 2017 (i.e. US$14.2 million) adjusted upwards for Rubicon's share of the reduction in TCLP's Net Debt that has occurred since, the estimated Purchase Price falls within the Grant Samuel value range, and the Rubicon stake is a non-strategic block in a Limited Partnership structure, there was no benefit to Rubicon shareholders (only considerable cost and time delay) to be derived from running another extended sales process.

There will only be one resolution on which shareholders will be asked to vote upon at the Meeting, but it has two aspects to it. The first, is in relation to NZX Listing Rule 9.1, which Rule requires an Ordinary Resolution of shareholders to approve a transaction that would change the essential nature of Rubicon's business. Although this may not be the case with the Sale of our TCLP investment, we have chosen to take the conservative path and seek shareholder approval on this point. All shareholders are entitled to vote on this aspect of the resolution. The second aspect, is in relation to Listing Rule 9.2, which requires an Ordinary Resolution to be passed in order to approve a material transaction with related parties. As Knott, Libra, and their associates are related parties to the Proposed Transaction, they are not entitled to vote on this Resolution.

As noted above, shareholder approval of the sale of Rubicon's 44.88% interest in TCLP will result in ArborGen then being Rubicon's sole asset. We have great belief in the potential future upside in ArborGen. It is a global leader in advanced forestry genetics, operating in the world's major commercial tree species (pine and eucalyptus), in geographies with high annual planting rates (Brazil, the US, and Australasia). It sells to major forestry players in those countries, and has a leading market position in its largest commercial market, the US. It has a pre-eminent intellectual property position, which includes an industry-leading germplasm repository (i.e. genetic library), a proprietary 'tree machine' platform, an extensive database of global trials, varietal and transgenic technology, and a genomics platform - all protected by a patent portfolio and a 'bank' of trade secrets. It has a portfolio of advanced products that do not require regulatory approval, which are currently being commercialised. In its last fiscal year, ArborGen turned EBITDA positive, and its forecasts are for it to be cash-positive from now onwards. The considerable investment in research, capability and customer preparation has been made. ArborGen is now all about commercialising that investment by converting its customers to its advanced genetics products. We believe it is well positioned to do so, and that this will be reflected in its future earnings, and hence in its value for Rubicon shareholders.

**Your Independent Directors unanimously recommend that shareholders vote in favour of the Proposed Transaction**, and we look forward to meeting with you and discussing these matters at the Meeting on 12 January 2018.

Yours sincerely,

Steve Kasnet
On behalf of the Committee of Independent Directors

14 December 2017

# Summary of the Proposed Transaction

## PROPOSED TRANSACTION

Rubicon TC Holdings has determined that it will sell its 44.88% ownership interest in TCLP.

On 11 December 2017, Rubicon TC Holdings reached an agreement with Knott and Libra to (subject to requisite Rubicon shareholder approval at this Meeting) sell to each of those parties 20.0% of TCLP's issued shares (i.e. in the aggregate, 40.00% of its 44.88% ownership interest). Rubicon TC Holdings' remaining 4.88% ownership interest in TCLP will be offered to existing TCLP Partners under the pre-emptive provisions of the LPA, and Rubicon TC Holdings expects the 4.88% to be fully acquired by some (or all) of the existing TCLP Partners.

Disposition of Rubicon TC Holdings' 44.88% ownership interest would then leave Rubicon with no ownership interest in TCLP.

The Proposed Transaction is subject to the approval by the Company's shareholders as:

- a major transaction for the purposes of the NZX Main Board Listing Rules; and
- a material transaction with a related party for the purposes of the NZX Main Board Listing Rules.

The Purchase Price for Rubicon's 44.88% ownership interest is estimated to be circa US$15.3 million, however the exact Purchase Price will be dependent on TCLP's Net Debt as at 31 December 2017, which number will not be known until January 2018. Accordingly, if shareholders approve the Sale, Closing will not occur until 31 January 2018.

## RECOMMENDATION

**The Independent Directors unanimously recommend that shareholders vote in favour of the Proposed Transaction.**

# Business of the Meeting

Notice is hereby given that a meeting of shareholders (**Meeting**) of Rubicon Limited (the **Company**) will be held at 10.00am on 12 January 2018, at Rydges Latimer, 30 Latimer Square, Christchurch.

**A. INTRODUCTION AND ADDRESS**

**B. SHAREHOLDER DISCUSSION**

**C. RESOLUTION**

**Resolution 1 – Proposed Transaction – Ordinary Resolution**

There is only one resolution to be put to the Meeting, and that is:

To consider and, if thought fit, pass the following as an ordinary resolution under NZX Main Board Listing Rules 9.1 and 9.2:

> *That the Sale of Rubicon TC Holdings LP's 44.88% ownership interest in TCLP, on the terms described in the Notice of Meeting, be approved.*

# Discussion of the Shareholder Resolution

## Explanatory Note to Resolution 1 – Proposed Transaction – Ordinary Resolution

**NZX Main Board Listing Rules**

NZX Main Board Listing Rule 9.1 provides that the Company and its subsidiaries must not enter into a transaction, or series of linked or related transactions, to sell assets: (a) which would change the essential nature of the business of the Company; or (b) in respect of which the gross value is in excess of 50% of the "average market capitalisation" of the Company and its subsidiaries, in each case except with the prior approval of an ordinary resolution of the Company (or a special resolution if section 129 of the Companies Act also applies). As the Proposed Transaction may change the essential nature of Rubicon's business, approval is being sought for the Proposed Transaction under the first limb of NZX Main Board Listing Rule 9.1. The Proposed Transaction falls beneath the 50% threshold of the second limb of Listing Rule 9.1, and approval is not required under that limb.

The Proposed Transaction does not require approval as a "major transaction" for the Company under section 129 of the Companies Act.

NZX Main Board Listing Rule 9.2 provides that the Company and its subsidiaries must not enter into a "material transaction" if a "related party" is a party to that transaction unless it is approved by shareholders by way of an ordinary resolution. For these purposes a "material transaction" includes a disposal of assets having an "aggregate net value" in excess of 10% of the "average market capitalisation" of the Company and its subsidiaries. The Purchasers are "related parties" of the Company, as Knott and Libra each hold a relevant interest in 10% or more of Rubicon's issued share capital (and, in the aggregate, own 45.9% of Rubicon's issued share capital with Knott owning 28.2% and Libra 17.7%). As related parties, neither Knott nor Libra (and their associates) will be able to vote on this resolution for these purposes.

**Procedural Notes**

(i) Resolution 1 is required to be approved as an ordinary resolution, required to be passed by a simple majority of the votes of those shareholders entitled to vote and voting on that resolution.

Votes cast on Resolution 1 will be counted first to determine whether or not it has been passed for the purposes of NZX Main Board Listing Rule 9.1, and secondly to determine whether or not it has been passed for the purposes of NZX Main Board Listing Rule 9.2. Resolution 1 will only take effect if Resolution 1 is approved by the required votes (as outlined above) and the Proposed Transaction is completed.

As to the first count, all shareholders are entitled to vote on Resolution 1 for the purposes of the approval required under NZX Main Board Listing Rule 9.1. As to the second count, any persons who are related parties or beneficiaries to the Proposed Transaction (including Knott, Libra, and their associates) are disqualified persons under Listing Rule 9.3.1, and their votes will be disregarded for the purposes of the approval required under NZX Main Board Listing Rule 9.2.

(ii) The persons who will be entitled to vote on the resolutions at this Meeting are those persons who are shareholders at 5.00pm, 5 January 2018 (New Zealand time), and only the shares registered in those shareholders' names on that date may be voted at the Meeting.

(iii) The accompanying Voting/Proxy Form should be used to vote on the resolutions. Shareholders can participate by postal vote, by proxy or by casting their vote in person at the Meeting.

(iv) Shareholders may cast a postal vote on the resolutions to be voted on at the Meeting by indicating their voting directions on the enclosed Voting/Proxy Form, signing the form and sending it either by post to the registered office of the Company or by post or by fax to the office of the Share Registrar. The completed Voting/Proxy Form must be received no later than 10.00am, 10 January 2018 (New Zealand time). The Company Secretary has been authorised by the Board to receive and count postal votes at the Meeting.

(v) Any shareholder who is entitled to attend and vote at the Meeting may appoint a proxy to attend and vote in their place. When appointing a proxy, a shareholder can choose to either direct the proxy how to vote or leave the decision on how to vote up to the proxy's discretion. If a shareholder appoints a person who is not entitled to vote on a particular resolution as their proxy, that proxy will not be able to cast that shareholder's votes on that resolution unless they have been directed how to vote (i.e., the proxy cannot exercise their discretion). A shareholder wishing to appoint a proxy should complete the enclosed Voting/Proxy Form and send it either by post to the registered office of the Company or by post or by fax to the office of the Share Registrar. The completed Voting/Proxy Form must be received no later than 10.00am, 10 January 2018 (New Zealand time). A proxy does not have to be a shareholder in the Company. For example, shareholders may appoint the chairman of the Meeting to act as their proxy, or another person. The chairman of the Meeting, in that capacity, will vote discretionary proxies held by the "chairman of the meeting" in favour of the resolution.

(vi) Rubicon directors Hugh Fletcher, William Hasler, and Luke Moriarty, and management, (and/or parties associated with them), hold shares in TCLP. While they are not contractually required or committed to acquire any of the shares Rubicon is proposing to sell, they do have pro-rata pre-emptive rights (common to all TCLP shareholders) under the LPA which would enable them to do so in respect to some of the 4.88% not being acquired by Knott and Libra. All have indicated that they, and their associates, will not vote Rubicon shares held by them (if any) on the Resolution. The three directors were not members of Rubicon's Independent Committee. Please also refer the table of shares held by Rubicon Directors and/or associated persons shown on page 8.

(vii) This Notice of Meeting has been approved by NZX Limited in accordance with NZX Main Board Listing Rule 6.1.1, however, NZX dos not take responsibility for any statement contained in this Notice of Meeting.

(viii) Shareholders may revoke their proxies by giving written notice of revocation to the registered office of the Company or the office of the Share Registrar no later than 10.00am, 10 January 2018 (New Zealand time).

(ix) Address details for the Share Registrar are set out in the Voting/Proxy Form.

By Order of the Board

Auckland
New Zealand
14 December 2017

M.A. Taylor

Mark Taylor
Company Secretary
Rubicon Limited

# The Proposed Transaction

**Investment being sold**

Rubicon TC Holdings' 44.88% ownership interest in TCLP (i.e. 14,226,000 TCLP shares). TCLP is the owner of the Clearwood business and operations formerly owned by Tenon. Rubicon has agreed to guarantee Rubicon TC Holdings' obligations under the Agreement.

**Consideration**

The Purchase Price is US$14,226,000, plus the reduction in Net Debt between 28 April 2017 (being the day Rubicon TC Holdings acquired its interest in TCLP) and 31 December 2017 multiplied by 44.88%. As the reduction in Net Debt will not be known until January 2018, the exact Purchase Price is unknown today, however it is currently estimated to be circa US$15.3 million (net of a US$0.7 million dividend to be received by Rubicon prior to Closing). The Purchase Price will be advised to shareholders on 10 January 2018, following calculation of the 31 December 2017 TCLP Net Debt position. If Rubicon shareholders approve the Proposed Transaction, the Purchase Price is payable in cash, on 31 January 2018.

**Purchasers**

The Purchasers of Rubicon TC Holding's 44.88% ownership interest in TCLP are Knott and Libra as to 40.0% (i.e. 12,680,000 TCLP shares, or 6,340,000 TCLP shares to each of Knott and Libra), and the purchasers of the remaining 4.88% (i.e. 1,546,000 TCLP shares) will be some (or all) of the existing TCLP Partners under the Partner pre-emptive provisions of the LPA.

**Key conditions**

The Proposed Transaction is subject to the satisfaction of certain conditions, including:

- The approval of the Company's shareholders;
- No injunctions or restraints having been enacted or enforced by any governmental authority or any other legal restraint or prohibition preventing the consummation of the transactions contemplated under the Agreement;
- The BNZ, as lender to the TCLP, unconditionally approving the Proposed Transaction and continuing to make available its current bank facilities to TCLP on existing terms; and
- There having been no material adverse change in the Clearwood business between signing and Closing.

The Sale Agreement will terminate if any of the conditions have not been fulfilled by 15 February 2018.

**Exclusivity arrangements**

Rubicon has agreed not to actively pursue any proposals with any person in relation to a potential Sale of its TCLP investment unless the Sale Agreement has been terminated in accordance with its terms. If Rubicon receives an unsolicited approach from a third party to acquire Rubicon TC Holdings' 44.88% interest in TCLP (an Alternative Proposal), it must advise that third party of the existence of the Sale Agreement and notify the Purchasers of the approach received (including its terms). However, Rubicon may engage with a third party in respect of an Alternative Proposal if it is received before shareholders approve the Proposed Transaction, the Board considers that it is superior to the Proposed Transaction and believes the TCLP Partners would waive their pre-emptive rights to allow the Alternative Proposal to proceed and the BNZ would approve the Alternative Proposal, and the Board has received legal advice that failure to act on such a proposal (a Superior Proposal) would be likely to violate their fiduciary duties. Rubicon must give the Purchasers the opportunity to match any such Superior Proposal.

**Key representations, warranties and undertakings**

Rubicon TC Holdings and Rubicon warrant to Knott, Libra, and the existing Partner purchasers of its TCLP interest, that:

- The Company has full legal title to the Shares; and
- The Company is duly authorised to enter into the Proposed Transaction.

Other warranties given are limited in nature, have a life of only six months, and a maximum aggregate claim amount of US$0.4 million, with the main warranty being that the Company did not make any claim (and did not elect not to pursue a claim) under the warranties given by Tenon in the Tenon Purchase Agreement, and no circumstance existed that would have allowed TCLP to make such a claim, and there is no fact, circumstance or matter now existing that would allow a claim to proceed under the Tenon Purchase Agreement had that warranty period not already expired.

Knott, Libra, and the existing Partner purchasers of Rubicon TC Holdings' TCLP interest, acknowledge that apart from the above warranties made by TC Holdings and Rubicon, that no other warranties or representations are being given, and that they are relying solely on their own judgement, investigations, and professional advice, and that they are not relying on any statement, undertaking, representation or warranty of any kind, other than the warranties noted above.

Knott and Libra have undertaken to sign a deed of adherence to TCLP in the form required by the LPA.

**Closing**

If the Company's shareholders approve the Proposed Transaction at the Meeting and all other conditions are satisfied, Closing of the Proposed Transaction will take place on 31 January 2018.

**Use of Sale proceeds**

The net proceeds of the Proposed Transaction (together with existing cash resources) will be used to meet the outstanding US$15 million in deferred settlement payments relating to the ArborGen acquisition made by Rubicon earlier this year, and the repayment of the outstanding US$6 million subordinated note on 1 July 2018. Rubicon's residual cash balance (net of restructuring costs) will then be used to advance ArborGen's business and operations.

**Guarantee and other covenants provided by the Company**

Rubicon has guaranteed Rubicon TC Holdings' performance of its obligations under the Sale Agreement.

**Summary of Independent Advisers' Report to shareholders**

Grant Samuel & Associates Limited was commissioned by the Independent Directors to undertake an independent review of the Proposed Transaction. Section 5.8 of Grant Samuel's report, Fairness of the Proposed Transaction for the purposes of the NZX Listing Rules, concludes:

*"In Grant Samuel's opinion, based on the analysis of the merits outlined above, the terms of the Proposed Transaction are fair and reasonable to the shareholders of Rubicon not associated with Knott and Libra. In Grant Samuel's opinion, the information to be provided by Rubicon to its shareholders is sufficient to enable holders of those shares to understand all the relevant factors and make an informed decision as to the sale of Rubicon's interest in TCLP."*

A full copy of the Grant Samuel report is appended to this Notice of Meeting, and the above extract should not be read in isolation from the full Grant Samuel report. Please also make reference to page 7 of the Grant Samuel report, where a schematic of Rubicon's investment ownership position is shown.

**If the Proposed Transaction does not proceed**

As described above, the Proposed Transaction is subject to the Company's shareholders approving it at the Meeting. The Proposed Transaction will not complete in the event that shareholders do not approve it or one of the other conditions is not satisfied or waived. There are no break fees or termination fees should the Proposed Transaction not be approved by shareholders.

Rubicon would then continue to own 44.88% of TCLP, and it would continue to be subject to the risks and influences to which it is currently exposed. Those influences include the level of activity in the various sectors of the economies in which it competes, particularly in New Zealand, Europe, and North America, fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repairs, remodelling and additions to existing homes, new housing starts, fibre availability, relative exchange rates (particularly Euro and US$), interest rates and profitability of customers. Other risks include competitor product development, product demand and pricing, input costs, and customer concentration risk.

In addition, Rubicon would need to find another source of funding in order to meet the outstanding US$15 million in deferred settlement payments relating to the ArborGen acquisition made earlier this year, and the repayment of the outstanding US$6 million subordinated notes, all by 1 July 2018.

If the Proposed Transaction does not proceed, Rubicon would not be able to remove all of the estimated (up to) US$2 million per annum in overhead savings.

Whilst Rubicon believes the 4.88% proposed to be sold to existing TCLP Partners will be fully acquired by those Partners, if it were not then Rubicon would look to sell any remaining balance to other parties.

**Alternatives to the Proposed Transaction**

The main alternative to the Proposed Transaction that was considered was the issuance of new Rubicon equity. The Independent Committee rejected this alternative, given its belief that the Rubicon share price is materially undervalued at the current level, that any share placement would be dilutive to non-participating shareholders, and that a rights issue would be expensive and time-consuming to complete and with unknown certainty of outcome in the absence of a full underwrite.

**Recommendation**

**The Independent Directors consider that the Closing of the Proposed Transaction is in the Company's best interests and of benefit to all shareholders and, as a result, unanimously recommend that shareholders vote in favour of the Proposed Transaction.**

**Directors**

Directors of the Company, and associated persons of those Directors, who own Rubicon shares are shown in the table below.

**Shares held by Directors and/or associated persons**

| Director | How held | Number of Ordinary Shares | % of Rubicon issued shares |
|---|---|---|---|
| David Knott, Dave Knott Jr, and Associates | Beneficial | 137,663,111 | 28.2% |
| Libra Funds LP, Ranjan Tandon, and Associates | Beneficial | 86,108,419 | 17.7% |
| H.A. Fletcher | Non-Beneficial | 5,775,286 | 1.2% |
| W.A. Hasler | Beneficial | 823,804 | 0.2% |
| S.G. Kasnet | Beneficial and Non-Beneficial | 613,220 | 0.1% |
| S.L. Moriarty | Beneficial | 3,495,476 | 0.7% |

# Glossary

The following terms have the following meanings when used in this Notice of Meeting.

**Associates** means, in respect of a person, that person's "Associated Persons" for the purposes of the NZX Main Board Listing Rules. In broad terms, a person (the "first person") is an Associated Person of another person (the "second person") if, in making a decision or exercising a power affecting the Company, the first person could be influenced as a consequence of an arrangement or relationship existing between, or involving, the first person and the second person.

**Board** means the board of directors of the Company.

**Closing** means 31 January 2018.

**Companies Act** means the Companies Act 1993 (New Zealand).

**Company** means Rubicon Limited and/or Rubicon TC Holdings LP as the context may require.

**Directors** mean the directors of the Company.

**Group** means Rubicon Limited and its subsidiaries.

**Guarantor** means Rubicon Limited, who is guaranteeing the performance by Rubicon TC Holdings of its obligations under the Sale Agreement.

**Independent Committee** means a Committee of Independent Directors.

**Independent Directors** means George Karaplis and Steve Kasnet.

**Knott** means Dorset Management Corporation, and Knott Partners LP (who together with Associates own 28.2% of Rubicon's issued shares).

**Libra** means Libra Partners NZ, LLC, and Libra Fund LP (who together with Associates own 17.7% of Rubicon's issued shares).

**LPA** means the Limited Partnership Agreement that governs TCLP.

**Meeting** means the meeting of shareholders of the Company, to be held on 12 January 2018, and any adjournments or postponements thereof.

**Net Debt** means TCLP's outstanding bank debt (inclusive of accrued and unpaid interest) less cash at bank and liquid deposits (including accrued and unpaid interest receivable).

**Notice of Meeting** means this notice of meeting by the Company for the purpose of calling the Meeting.

**NZ$** means New Zealand dollars.

**NZX Main Board** means the main board equity securities market operated by NZX.

**Partner(s)** means a Limited Partner owning shares issued by TCLP.

**Purchase Price** refers to the Purchase price for all Rubicon TC Holdings' ownership interest in TCLP, and means US$14,226,000, plus the US$ amount by which Net Debt has reduced (in the period from 28 April 2017 through to 31 December 2017) multiplied by 44.88%.

**Purchase Price Per Share** means Purchase Price divided by 14,226,000.

**Proposed Transaction** means the Sale of Rubicon TC Holdings' ownership interest in TCLP.

**Purchaser(s)** means Knott, Libra, and the existing TCLP shareholders who purchase 4.88% of TCLP.

**Rubicon** means Rubicon Limited or, where the context requires, the group comprising Rubicon Limited and its subsidiaries.

**Rubicon TC Holdings** means Rubicon TC Holdings LP, the direct owner of Rubicon's 44.88% TCLP shares.

**Sale** means the sale of Rubicon TC Holdings' 44.88% ownership interest in TCLP.

**Sale Agreement** means the sale and purchase agreement relating to Rubicon TC Holdings' ownership interest in TCLP, between Rubicon TC Holdings (and Rubicon Limited as Guarantor) and the Purchasers, over 40% of TCLP's issued shares.

**Share Registrar** means Computershare Investor Services Limited.

**TCLP** means the Tenon Clearwood Limited Partnership, which, on 28 April 2017, acquired the assets of the Clearwood business formerly owned by Tenon Limited.

**Tenon** means Tenon Limited or, where the context requires, the group comprising Tenon Limited and its subsidiaries.

**Tenon Purchase Agreement** means the sale and purchase agreement relating to the Clearwood business and assets, dated 14 February 2017, between Tenon Manufacturing Limited, Tenon, and TCLP.

**US$** means United States dollars.

**Voting/Proxy Form** means the voting / proxy form accompanying this Notice of Meeting.

RUBICON LIMITED

# INDEPENDENT APPRAISAL REPORT ON THE PROPOSED SALE OF RUBICON LIMITED'S INTEREST IN TENON CLEARWOOD LIMITED PARTNERSHIP

GRANT SAMUEL & ASSOCIATES LIMITED

DECEMBER 2017

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# 1 Terms of the Proposed Transaction

## 1.1 Background

On 11 December 2017, Rubicon Limited (**Rubicon**) announced that it proposes to sell its 44.88% shareholding[1] in Tenon Clearwood Limited Partnership (**TCLP**) to Dorset Management Corporation (an affiliate of Knott Partners LP) (**Knott**), Libra Partners NZ, LLC (an affiliate of Libra Fund LP) (**Libra**) and the other partners in TCLP (together the **Proposed Purchasers**) for consideration estimated to be US$15.3 million, representing the cost of Rubicon's investment into TCLP in April 2017 (US$14.2 million) plus Rubicon's share of the net cash generated in TCLP in the period from 28 April 2017 through to 31 December 2017 (estimated to be US$1.1 million following the payment of an upcoming dividend of US$0.7 million in December 2017)[2] (the **Proposed Transaction**).

A summary of the proportion of Rubicon's TCLP shares that the Proposed Purchasers are acquiring is outlined below:

**PROPOSED PURCHASERS – PROPORTION OF SHARES ACQUIRED**

| | % OF TCLP SHAREHOLDING ACQUIRED |
|---|---|
| Knott | 20.00% |
| Libra | 20.00% |
| Existing TCLP Limited Partners | 4.88% |
| **Share % to be acquired** | **44.88%** |

Under the TCLP Partnership Agreement, the Limited Partners have pre-emptive rights should partners wish to sell their shareholding. All existing Partners have agreed to waive their pre-emptive rights over the 40% interest in TCLP being sold to Knott and Libra. The residual 4.88% balance is to be taken up by existing TCLP Limited Partners under the pre-emptive provisions of the TCLP Partnership Agreement.

In June 2017, Rubicon acquired the remaining 66.66% of the shares it did not own in US-based forestry genetics company, ArborGen Inc. (**ArborGen**) for US$28.5 million. Rubicon needs to make two final deferred-settlement payments totalling US$15 million to complete the purchase of ArborGen. In addition, Rubicon also needs to repay US$6 million of subordinated debt notes on 30 June 2018.

The sale of the 44.88% interest in TCLP will result in ArborGen being Rubicon's sole asset.

The completion of the Proposed Transaction will ensure funding calls on Rubicon Shareholders will not be required in order for Rubicon to meet all of these payments.

## 1.2 Details of the Proposed Transaction

The proposed sale of Rubicon's 44.88% shareholding in TCLP is subject to the satisfaction of certain conditions which include:

- the approval of the Proposed Transaction. There will be one resolution on which shareholders will be asked to vote on:
    - an ordinary resolution of shareholders to approve the Proposed Transaction as it may change the essential nature of Rubicon's business. This is required under Listing Rule 9.1; and
    - an ordinary resolution to approve a material transaction with a related party. This is required under Listing Rule 9.2.
- the BNZ, as lender to TCLP, unconditionally approving the Proposed Transaction and continuing to make available its current bank facilities to TCLP on existing terms;

[1] Shares are held by Rubicon TC Holdings, a 100% subsidiary of Rubicon Limited. For the purpose of this report company means Rubicon Limited or Rubicon TC Holdings Limited as the case may be.

[2] The net debt position will not be known until 10 January 2018.

- TCLP's business not having suffered a material adverse change (or an event having occurred that is reasonably likely to result in that occurring); and
- no law being enacted or enforced that prevents the consummation of the Proposed Transaction.

The fundamental warranties being provided to the Proposed Purchasers are that Rubicon:

- has full legal title to the Shares; and
- is duly authorised to enter into the Proposed Transaction.

Other warranties being given are limited in nature, have a life of only six months, and a maximum aggregate claim amount of US$0.4 million.

Rubicon has entered into an exclusivity agreement with the Proposed Purchasers not to actively pursue any proposals with any person in relation to a potential sale of its TCLP investment unless the Proposed Transaction sale agreement (**Sale Agreement**) has been terminated in accordance with its terms. If Rubicon receives an unsolicited approach from a third party to acquire Rubicon's 44.88% interest in TCLP (an **Alternative Proposal**), it must advise that third party of the existence of the Sale Agreement and notify the Proposed Purchasers of the approach received (including its terms). However, Rubicon may engage with a third party in respect of an Alternative Proposal if:

- it is received before shareholders approve the Proposed Transaction; and
- the Independent Committee:
  - considers that it is superior to the Proposed Transaction; and
  - believes the TCLP Partners would waive their pre-emptive rights to allow the Alternative Proposal to proceed; and
  - believes the BNZ would approve the Alternative Proposal; and
- the Committee has received legal advice that failure to act on such a proposal would be likely to violate their fiduciary duties.

Rubicon must give the Proposed Purchasers the opportunity to match any such superior proposal.

The Proposed Acquisition is conditional upon the resolution being passed by Rubicon shareholders. If the resolution is passed by Rubicon shareholders, the transaction is expected to be completed on 31 January 2018.

# 2 Scope of the Report

## 2.1 Purpose of the Report

The Independent Directors of Rubicon have engaged Grant Samuel and Associates (**Grant Samuel**) to prepare an Independent Appraisal Report to consider the Proposed Transaction. Grant Samuel is independent of Rubicon, the Proposed Purchasers and the TCLP and has no involvement with, or interest in, the outcome of the Proposed Transaction.

The Proposed Transaction is subject to both Rule 9.1 of the NZSX Listing Rules relating to the disposal of a listed company's assets and Rule 9.2 relating to transactions with related parties.

The Notice of Meeting to consider the Proposed Transaction must contain such information, reports, valuations, and other material as are necessary to enable the holders of Rubicon shares to appraise the implications of the Proposed Transaction.

A copy of this report will accompany the Notice of Meeting to be sent to all Rubicon shareholders. This report is addressed to Rubicon's Independent Directors, for the benefit of Rubicon shareholders not associated with Knott and Libra and their associates.

The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the fairness of the Proposed Transaction. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix 6.

## 2.2 Requirements of the NZX Listing Rules

### 2.2.1 Major transaction under Listing Rule 9.1.

Listing Rule 9.1.1 provides that, except with the prior approval of an ordinary resolution, Rubicon may not enter into any transaction or series of linked or related transactions to acquire, sell, exchange, or otherwise dispose of assets in Rubicon:

a) which would change the essential nature of the business of the Company; or

b) in respect of which the gross value is in excess of 50% of the average market capitalisation of the Company.

In accordance with 9.1.2, an Appraisal Report is required to accompany the Notice of Meeting to approve the required ordinary resolution.

### 2.2.2 Transaction with Related Parties under Listing Rule 9.2.1.

Listing Rule 9.2.1 requires that where there is a material transaction with a Related Party, it must be approved by the shareholders other than the related parties and its associates. The Notice of Meeting must be accompanied by an Appraisal Report which contains such information as is necessary for Rubicon shareholders to decide whether the terms of the proposed sale are fair.

Some of the Proposed Purchasers are considered to be Related Parties of Rubicon, as the beneficial shareholders of Knott and Libra each hold a relevant interest in 10% or more of Rubicon's issued share capital. Knott and Libra together hold 45.9% of Rubicon's shares. In relation to Rule 9.2, Knott and Libra and their associates cannot vote on that part of the ordinary resolution.

In addition, Rubicon directors Hugh Fletcher, William Hasler and Luke Moriarty, and management, (and/or parties associated with them) hold shares in TCLP and will not vote their Rubicon shares on the resolution. While they are not contractually required or committed to acquire any of the TCLP shares Rubicon is proposing to sell, they have pro rata pre-emptive rights (common to all TCLP shareholders) under the TCLP Partnership Agreement, which will enable them to acquire shares in respect to some of the 4.88% not being acquired by Knott and Libra.

### 2.2.3 Appraisal Report Requirements

Pursuant to Listing Rule 1.7.2, the Appraisal Report is required to:

- be addressed to the Independent Directors of Rubicon;
- be expressed to be for the benefit of the shareholders of Rubicon not associated with Knott and Libra and their associates;
- state whether or not in the opinion of Grant Samuel the consideration and the terms and condition of the proposed sale of the 44.88% interest in TCLP are “fair” to Rubicon’s shareholders (other than those associated with Knott and Libra and their associates);
- state whether or not in Grant Samuel’s opinion the information to be provided by Rubicon to its shareholders is sufficient to enable holders of those shares to understand all the relevant factors and make an informed decision as to the “fairness” of the proposed sale and the grounds for that opinion;
- state whether Grant Samuel has obtained all information which it believes desirable for the purposes of preparing the report, including all relevant information which is or should have been known by any director of Rubicon and made available to the directors;
- state any material assumptions on which Grant Samuel’s opinion is based; and
- state any term of reference which may have materially restricted the scope of the report.

The term “fair” has no legal definition in New Zealand either in the NZX Listing Rules or in any other statutes dealing with securities or commercial law. However, guidance in interpreting and applying the rule can be gained both from regulatory interpretation in other jurisdictions and rulings made by the NZX.

The decision of each Rubicon shareholder as to whether or not to vote in favour of the Proposed Transaction is a matter for individual shareholders, having considered all relevant factors and their own preference either in favour of or against the Proposed Transaction.

## 2.3 Basis of Evaluation

Grant Samuel has evaluated the Proposed Transaction by reviewing the following factors:

- the estimated value range of the 44.88% interest in TCLP and the value of the Proposed Transaction when compared to the estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- any advantages or disadvantages for Rubicon shareholders of accepting or rejecting the Proposed Transaction;
- the potential alternatives to the Proposed Transaction and the process followed to yield these outcomes; and
- reviewing the current trading conditions for TCLP and the timing and circumstances surrounding the Proposed Transaction.

# 3 Profile of Rubicon

## 3.1 History

Rubicon was formed as a new company to assist in the separation of the Fletcher Challenge Group, and also in the capitalisation of Fletcher Forests Limited (**Fletcher Forests**) to allow that company to become a stand-alone entity. Tenon Limited (**Tenon**) subsequently emerged from the restructuring of Fletcher Forests, which itself was originally part of the Fletcher Challenge Limited (**Fletcher Challenge**) group of companies. As part of the Fletcher Challenge separation transactions Fletcher Forests received NZ$90 million from a placement of Fletcher Forests shares to newly formed Rubicon and NZ$80 million from the sale of its South American and biotechnology assets to Rubicon. The Fletcher Challenge separation was implemented in March 2001, following which Rubicon and Fletcher Forests traded as separate publicly listed entities.

In late 2002, Fletcher Forests transitioned from a forestry growth strategy to refocus its business on the higher yielding wood processing, marketing and in-market distribution activities. In 2003 Fletcher Forests sold all of its forest estates and contemporaneously with the sale, changed its name to Tenon. Sale proceeds from the forest estate sale were distributed to shareholders. In March 2004, Rubicon successfully launched a takeover bid to acquire 50.01% of Tenon, and it has since increased its ownership interest to 59.78%.

In December 2016, Tenon sold the company's North American business to Blue Wolf Capital for approximately US$113 million (the **Tenon USA Transaction**).

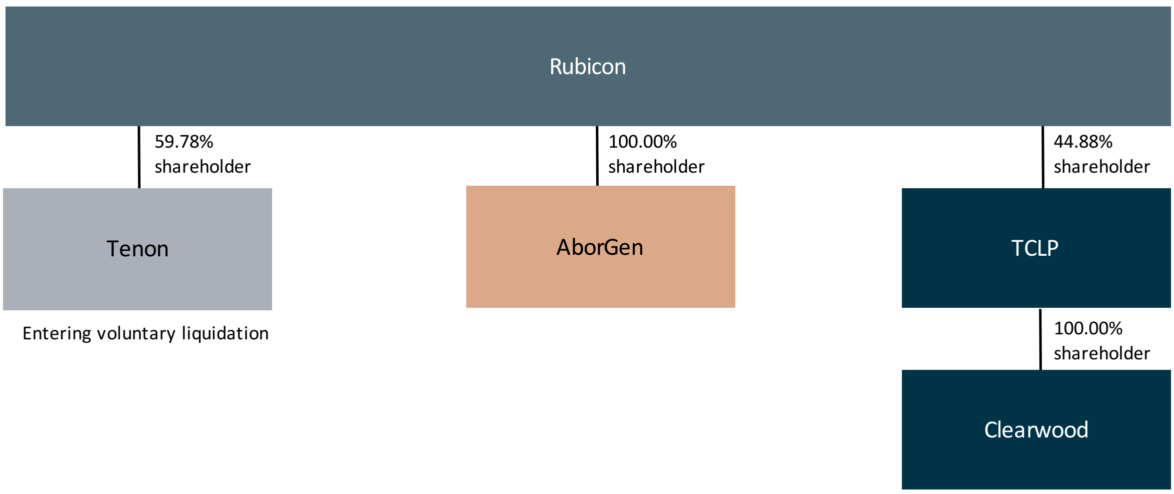
In April 2017, Tenon sold its last remaining asset, the Clearwood business (**Clearwood**) to TCLP. As a result of this transaction:

- Rubicon became a 44.88% shareholder in TCLP, at a cost of US$14.2 million; and
- Tenon delisted from the NZX Main Board on 31 July 2017 and Tenon shareholders have voted to place Tenon into voluntary liquidation given it no longer has any operating assets. The proportion of the Tenon cash surplus upon completion of the liquidation payable to Rubicon is estimated to be around US$2.6 million, and the payment should be able to be made in the first quarter of 2018.

Today, Rubicon is comprised of:

- a 100% interest in US-based forestry genetics company, ArborGen;
- a 44.88% interest in TCLP; and
- a 59.78% interest in Tenon.

**RUBICON – SUMMARISED COMPANY STRUCTURE**



The sale of Rubicon's interest in TCLP and the liquidation of Tenon will result in ArborGen being Rubicon's sole asset. Rubicon has a 100% voting interest and ownership in ArborGen, and a 95% economic interest due to outstanding warrants relating to ArborGen's acquisition of Cellfor in 2012. The warrants are automatically exercised upon an IPO of ArborGen or alternatively at any time if 66.7% of the warrant holders elect to do so. The warrants can also be exercised by ArborGen if substantially all of ArborGen's assets are sold or if 50.01% or more of ArborGen's shares are sold. The warrants do not provide the holders with access to dividends. In addition, ArborGen's senior management team hold options in respect of 5.3% of ArborGen's issued capital. The options are fully vested and are exercisable at the same price per share paid by Rubicon (when it moved to 100% ownership of ArborGen in June 2017) by the option holders upon an IPO of ArborGen, the sale of all or substantially all of ArborGen's assets or shares, or the issue of new shares resulting in a change in majority control of ArborGen.

## 3.2 Rubicon Forecast Financial Performance

The pro forma forecast financial performance of Rubicon for the 12 months ending 31 March 2018 (**FY18**) (prior to the Proposed Transaction) is summarised below:

**RUBICON PRO FORMA FINANCIAL PERFORMANCE (US$MILLIONS)**

| YEAR ENDED 31 MARCH | 2018F |
|---|---|
| Revenue | 128.8 |
| Cost of sales | (98.6) |
| **Gross profit** | **30.2** |
| *Gross margin %* | *23%* |
| Overhead expenses | (13.8) |
| **EBITDA** | **16.4** |
| *EBITDA margin %* | *13%* |
| Depreciation and amortisation | (10.3) |
| **EBIT** | **6.1** |
| Net Interest | (4.0) |
| **Net profit before tax** | **2.1** |
| Tax | - |
| **Net profit after tax** | **2.1** |

The following points should be taken into consideration when reviewing the table above:

- over the last 12 months Rubicon has changed its balance date from 30 June to 30 September, Tenon (which is consolidated into Rubicon's accounts) sold its US distribution business to Blue Wolf, and Clearwood to TCLP, and Rubicon acquired the remaining 66.66% of the shares in ArborGen that it did not already own. The transaction activity and balance date change makes it challenging to compare Rubicon's financial performance prior periods;
- the pro forma forecast presented above combines the FY18 forecast for TCLP and ArborGen (detailed below). It is important to note that, although TCLP is consolidated into Rubicon's financial statements (because it has a 50.01% voting control by virtue of voting control agreements over 5.13% of the TCLP shares), it only owns 44.88% of TCLP and Rubicon shareholders are, subject to meeting various bank covenants, only entitled to its proportion of net profit before taxation from the business;
- the pro forma position before the Proposed Transaction is outlined above as it is used to assess the merits of the Proposed Transaction (see section 5.5); and
- analysis of the underlying financial performance of TCLP and ArborGen are provided in sections 3.5 and 3.6 of this report.

## 3.3 Rubicon Financial Position

The financial position of Rubicon as at 30 September 2017, as reported in Rubicon's 2017 audited financial statements and the pro forma financial position after the liquidation of Tenon, payment of the deferred-settlement payments in relation to the acquisition of ArborGen and the repayment of the subordinated debt is summarised below:

**RUBICON – FINANCIAL POSITION (US$ MILLIONS)**

| AS AT 30 SEPTEMBER 2017 | AS REPORTED | PRO FORMA ADJUSTMENTS | PRO FORMA POSITION BEFORE THE PROPOSED TRANSACTION |
|---|---|---|---|
| Receivables | 9.1 | - | 9.1 |
| Inventory | 41.0 | - | 41.0 |
| Creditors | (23.6) | 1.1 | (22.5) |
| Current lease obligation | (0.7) | - | (0.7) |
| **Working capital** | **25.8** | **1.1** | **26.9** |
| Fixed assets | 62.0 | - | 62.0 |
| Goodwill | 18.0 | - | 18.0 |
| Intellectual property | 106.9 | - | 106.9 |
| Deferred tax liability | (6.0) | - | (6.0) |
| **Net operating assets** | **206.7** | **1.1** | **207.8** |
| Cash and liquid deposits | 31.2 | (23.8) | 7.4 |
| Deferred settlement | (15.0) | 15.0 | - |
| Current Debt | (17.9) | 6.0 | (11.9) |
| Term debt | (33.3) | - | (33.3) |
| **Net bank debt** | **(35.0)** | **(2.8)** | **(37.8)** |
| Lease obligation | (11.9) | - | (11.9) |
| **Net debt** | **(46.9)** | **(2.8)** | **(49.7)** |
| **Net assets** | **159.8** | **(1.7)** | **158.1** |

The following points should be taken into consideration when reviewing the table above:

- the pro forma position before the Proposed Transaction is outlined above as it is used to assess the merit of the Proposed Transaction (see section 5.5);
- the pro forma financial position assumes a US$2.6 million capital return from the liquidation of Tenon; and
- analysis of the underlying balance sheets of TCLP and ArborGen are provided in sections 3.5 and 3.6.

## 3.4 Cash Flows

The pro forma forecast cash flows for Rubicon for FY18F are summarised below:

**RUBICON – PRO FORMA FREE CASH FLOW (US$ MILLIONS)**

| YEAR END 31 MARCH[3] | 2018F |
|---|---|
| EBITDA less finance costs | 12.4 |
| Less: Capital expenditure | (3.2) |
| Less: R&D | (5.8) |
| **Free cash flow before movements in working capital** | **3.4** |

## 3.5 Tenon Clearwood Limited Partnership

### 3.5.1 Business operations

TCLP (i.e. Clearwood) is the leading New Zealand manufacturer of radiata clear wood products for sale into the high-value global markets in Europe and the US. The business comprises a large grade cutting mill in Taupo, New Zealand with an associated remanufacturing plant, and integrated global sales and marketing activities. The company is responsible for exporting approximately 30% of the total manufactured pine products from New Zealand to the US, and is the fifth largest containerised exporter out of New Zealand. Clearwood employs approximately 275 full time equivalent staff and operates in the New Zealand Timber Processing industry. An overview of the New Zealand Timber Processing industry is provided in Appendix 3.

The US is Clearwood's primary export market, being the destination for approximately 85% of all its high-value products, with Europe being Clearwood's second major fast-developing market. Clearwood's key export markets are described below:

- **United States -** supplying into the new home construction market (via its own sales and distribution arm (Taupo Wood Solutions selling to pro-dealers and wholesalers) and to the remodelling & renovation market both directly and indirectly (through Empire, under a 5-year exclusive arrangement)**;**
- **Europe** - supplying the high-value, high-growth wood modification market; and
- **Other markets** - these primarily comprise China and New Zealand for lower-grade 'shop' and industrial product.

New Zealand's pruned radiata pine resource is unique globally as the harvested log at maturity contains approximately 5.0-5.5 metres in length of clear (no knots) high quality fibre – this is the genesis of Tenon's 'Clearwood' business name. Although clear wood represents only 30% of the volume of a pruned log, it typically represents more than 50% of the log's total value.

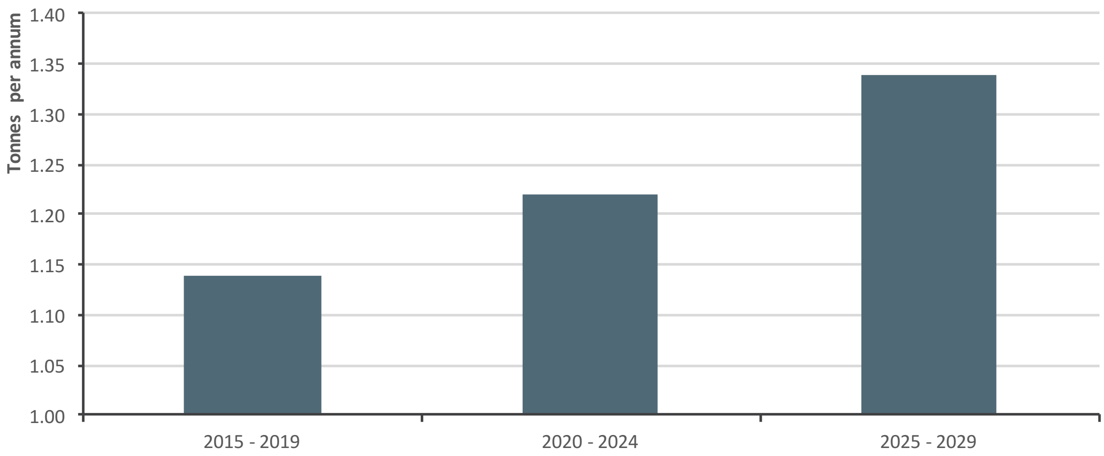
The Clearwood operation procures approximately 300,000 $m^3$ annually of high quality pruned logs from Central North Island forest owners. At its operations in Taupo, it converts the logs into long length, clear boards, moulding and related products. Initially, Clearwood converted these logs solely into clear commodity lumber and sold that to US-based remanufacturers, however over the past decade Clearwood has developed its own portfolio of customers and markets for finished processed clear products, to such an extent that today 85% of Clearwood's high-value clear product is sold by it in remanufactured form, with only 15% being sold as clear lumber.

[3] Includes 100% of TCLP's cash flow.

### 3.5.2 Procurement

Clearwood is the largest consumer of pruned logs in New Zealand, and sources the vast majority of its requirements from the Central North Island forest estate. The projected supply from this market is shown below:

**PROJECTED CENTRAL NORTH ISLAND PRUNED LOG RESOURCE[4]**




Clearwood benefits from having in-depth knowledge of the forestry market, as it was the previous owner of significant forest resources in the Central North Island. This gives the company insights into log quality, demand and supply requirements, industry volume and price metrics, assisting Clearwood in its objective of acquiring the highest quality logs at the lowest average delivered price.

### 3.5.3 Sawmill and remanufacturing operations

Clearwood operates the largest pruned log sawmill in New Zealand. Based in Taupo, the 377,000 square foot sawmill and warehouse facility is situated on a combined site of 34.4 hectares (including 12.5 hectares of surplus land). The sawmill currently operates at 75% of capacity, consuming approximately 300,000m$^3$ of logs per annum. This throughput can be increased to 3.5-4.0 shifts a day, consuming up to approximately 400,000 m$^3$ of logs per annum. Clearwood has consistently and successfully run on four shifts previously to meet market demand. There are nine kilns operating on the site, which are powered by geothermal energy.

Clearwood has recently installed new technology including an optimising edger in September 2015 at a cost US$4.7 million, and an upgrade to the ripline in the remanufacturing plant in the final quarter of FY16 at a cost of US$2.3 million. The commissioning of the edger and ripline projects completed all major programmed capital expenditure at the Taupo site, other than the installation of additional drying kilns (estimated at approximately US$2 million) which would be required if the site was to move to a four-shift basis, if and when market demand warranted this investment.

[4] Tenon (from National Exotic Forest Description Report and Ministry of Primary Industries)

### 3.5.4 Clearwood Financial Performance

The financial performance of Clearwood (excluding corporate and public company overhead costs) for the financial years ended 30 June 2015 (**FY15**), 2016 (**FY16**) and 2017 (**FY17**) together with the forecast for Clearwood for the year ending 31 March 2018 (**FY18**) is summarised below.

**CLEARWOOD FINANCIAL PERFORMANCE (US$ MILLIONS)**

| | 30 JUNE | | | 31 MARCH |
|---|---|---|---|---|
| **YEAR END** | **2015** | **2016** | **2017** | **2018F[5]** |
| Sales | 76.7 | 81.2 | 87.9 | 80.8 |
| Cost of sales | (68.5) | (66.6) | (76.0) | (68.8) |
| **Gross profit** | **8.2** | **14.6** | **11.9** | **12.0** |
| *Gross margin %* | *11%* | *18%* | *14%* | *15%* |
| Overhead expenses | (2.8) | (2.8) | (1.8) | (2.7) |
| **EBITDA** | **5.4** | **11.8** | **10.1** | **9.3** |
| *EBITDA margin %* | *7%* | *14%* | *11%* | *12%* |
| Depreciation and amortisation | (1.0) | (1.4) | (1.6) | (1.6) |
| **EBIT** | **4.4** | **10.4** | **8.5** | **7.7** |

The following points should be taken into consideration when reviewing the table above:

- when Clearwood was acquired by TCLP the balance date was changed from 30 June to 31 March;
- Clearwood's gross margin increased in FY16 due to a change in product mix towards higher value products, the impact of the edger and ripline upgrades, and the weaker New Zealand dollar;
- the gross margin decline in FY17 was largely due:
  - to the average exchange rates increasing from NZ$0.67 to over NZ$0.71 per US$, and from NZ$0.60 to over NZ$0.66 per EURO; and
  - log prices remaining relatively constant in US dollar terms for the past 12 months;
- Clearwood is a US functional currency operation, and the strength of the New Zealand dollar is a key driver of earnings. A 1 cent movement in the US dollar against the weighted basket of currencies Clearwood trades with would equate to an approximate US$0.5 million EBITDA impact, ceteris paribus (assuming no compensating change in New Zealand dollar log prices). A 1 cent movement in the US dollar against the EURO would equate to an approximate US$0.2 million EBITDA impact, ceteris paribus. A 1 cent movement in the US dollar against the NZ dollar would equate to an approximate US$0.7 million EBITDA impact ceteris paribus. NZ dollar log prices have historically tended to move with changes in the US dollar. If this was assumed in the US dollar sensitivity against TCLP's weighted basket of currencies, the 1 cent sensitivity would reduce from $0.5 million to $nil;
- Clearwood has exited its Australian activities and therefore the results shown above exclude the Australian activities over the past three financial years; and
- the forecast for the year ending 31 March 2018 is based on the following material assumptions:
  - USD: NZD average over the year of 0.710;
  - EURO: NZD average over the year of 0.614;
  - log purchases of 290,500 tonnes; and
  - sawmill production of 168,000 tonnes.

[5] Net of General Partner fees of US$0.25m pa and US$0.2m pa of costs previously borne by Tenon corporate.

### 3.5.5 Clearwood Financial Position

The financial position of Clearwood as at 30 September 2017 is summarised below:

**CLEARWOOD – FINANCIAL POSITION (US$ MILLIONS)**

| AS AT | 30 SEPTEMBER 2017 |
|---|---|
| Receivables | 6.3 |
| Inventory | 12.2 |
| Creditors | (9.3) |
| **Working capital** | **9.2** |
| Fixed assets | 17.4 |
| Goodwill | 18.0 |
| **Net operating assets** | **44.6** |
| Cash and liquid deposits | 3.7 |
| Current debt | (4.2) |
| Term debt | (19.3) |
| **Net bank debt** | **(19.8)** |
| **Net assets** | **24.8** |

The following points should be taken into consideration when reviewing the table above:

- the TCLP financial position reflects the acquisition of Clearwood for US$55 million in April 2017; and
- TCLP is required to reduce its 5-year bank acquisition facility by US$4.3 million per annum, until the principal is reduced to US$15 million. Rubicon believes that these payments will be made and that TCLP will continue to operate within its financial covenants even if the Proposed Transaction is not approved.

### 3.5.6 Cash Flows

The cash flows for Clearwood for FY15, FY16, FY17 and FY18F are summarised below:

**CLEARWOOD - FREE CASH FLOW (US$ MILLIONS)**

| | 30 JUNE | | | 31 MARCH |
|---|---|---|---|---|
| YEAR END | 2015 | 2016 | 2017 | 2018F |
| EBITDA less finance costs[6] | 5.4 | 11.8 | 10.1 | 8.2 |
| Less: Capital expenditure | (5.9) | (3.7) | (1.1) | (1.3) |
| **Free cash flow (excluding movements in working capital)** | **(0.5)** | **8.1** | **9.0** | **6.9** |

[6] Financing costs were not attributed to Clearwood in the years 2015-2017.

## 3.6 Profile of ArborGen

### 3.6.1 Background

ArborGen was established in 2000 and is considered to be a global leader in the commercialisation of advanced forestry genetics. Through the application of a proprietary technology platform to its extensive forestry germplasm base (i.e. genetic library), ArborGen develops and produces high-value plantation tree seedlings that generate an improvement in forestry productivity.

ArborGen has a strong and growing market position, with over 6,000 active customers, including many of the largest forest land owners and managers in the United States, New Zealand, Brazil and Australia.

ArborGen is the largest global provider of tree seedlings to the commercial forestry industry, currently producing more than 350 million seedlings per annum. Its products are specifically developed for land owners and managers supplying the sawtimber, plywood and other structural wood products, pulp and paper, and industrial markets. ArborGen's current focus is on loblolly pine, radiata pine and eucalyptus, which are among the most widely-planted commercial species in the world.

ArborGen has 160 employees and owns or leases 15 nurseries, 16 seed orchards, 32 distribution centres and three research and development facilities located throughout the Southern United States, New Zealand, Australia and Brazil.

### 3.6.2 Intellectual Property

ArborGen's proprietary 'tree machine' technology platform enables it to be the only commercial seedling company with products spanning a broad technology spectrum. It sells conventional seedling products developed using traditional plant breeding methods, as well as proprietary next-generation seedling products developed using plant breeding technologies (including genomics) and clonal propagation. Its next-generation products are designed to enhance customers' financial returns by, for example, improving the growth rates, yields, log quality, uniformity and processing efficiency of trees, and enable it to create and capture greater value than with conventional products.

ArborGen's product development pipeline includes improved versions of these next-generation seedling products as well as transgenic seedling products, which are seedling products with specific genes introduced to enhance targeted traits. Other than certain eucalyptus products in Brazil, which will utilise transgenic technology, none of its products on the market or under development require any regulatory review or approval.

ArborGen believes it has the broadest portfolio of intellectual property in its industry, as well as the largest and most diverse repositories of germplasm, encompassing more than 40 commercial tree species and hybrids. It operates an extensive field trial system, with trials (both commercial and field) in multiple geographic and site specific locations in each of the US, Brazil, New Zealand, Australia, and China. It is using genomics technology in pine, and its biotechnology capabilities in eucalyptus, to further accelerate and enhance its tree improvement programs.

### 3.6.3 ArborGen Financial Performance

The financial performance of ArborGen (excluding Rubicon corporate and public company overhead costs) for the financial years ended 31 March 2017 (**FY17**) together with the forecast for the year ending 31 March 2018 (**FY18**) is summarised below:

**ARBORGEN FINANCIAL PERFORMANCE (US$ MILLIONS)**[7]

| YEAR END 31 MARCH | 2017 | 2018F |
|---|---|---|
| Revenue | 44.5 | 48.0 |
| Cost of sales | (29.5) | (29.8) |
| **Gross profit** | **15.0** | **18.2** |
| *Gross margin %* | *34%* | *38%* |
| Overhead expenses | (7.8) | (8.4) |
| **EBITDA** | **7.2** | **9.8** |
| *EBITDA margin %* | *16%* | *20%* |
| Depreciation and amortisation | (8.7) | (8.7) |
| **EBIT** | **(1.5)** | **1.1** |

The following points should be taken into consideration when reviewing the table above:

- ArborGen is applying a business model similar to that which has been successfully applied in agriculture, where seed companies have introduced advanced genetics crops that have dramatically improved the economic per acre as compared to their conventional seed competitors. Through increased pricing, these seed companies are sharing in the higher value their advanced products create for their customers;
- in FY17, ArborGen achieved revenue growth of 21%, due to market growth and the average selling price increasing in the United States by 7% on volumes of 270 million seedlings;
- ArborGen's revenue is forecast to increase by 8% in FY18 and gross margin % is forecast to increase to 38% due to ArborGen focusing on transitioning its customers from conventional seedling products to its next-generation advanced genetics products, resulting in a higher average sales price;
- the forecast financial performance for FY18 will be impacted by Hurricanes Irma and Harvey in the United States. While the full extent of the impact is not known at this stage, ArborGen is currently forecasting that its EBITDA will improve significantly relative to the prior period. The business anticipates EBITDA to increase by US$2.6 million due to the improvement in gross margin % and the increase in revenue;
- ArborGen plans to increase its market-share in those geographies and markets in which it is already established – i.e. the US, Brazil, NZ and Australia. It is also investigating expanding into new markets and geographies, where its products, technology and partners position it for rapid growth; and
- the recent change in the New Zealand Government has resulted in the announcement of new polices favourable towards the New Zealand forestry industry and climate change. The details have not been finalised, but there is potential for the change in policy to have a positive impact on ArborGen's future earnings.

[7] Numbers shown in this table are as prepared under NZ-IFRS and are pre-restructuring costs. Rubicon advises that the comparable EBITDA numbers under US-GAAP are US$1.7 million (2017) and US$4.0 million (2018F).

### 3.6.4 ArborGen Financial Position

The financial position of ArborGen as at 30 September 2017 is summarised below:

**ARBORGEN FINANCIAL POSITION (US$ MILLIONS)**

| AS AT | 30 SEPTEMBER 2017 |
|---|---|
| Receivables | 2.8 |
| Inventory | 28.8 |
| Creditors | (11.6) |
| Current lease obligation | (0.7) |
| **Working capital** | **19.3** |
| Fixed assets | 44.6 |
| Intellectual property | 106.9 |
| Deferred tax liability | (6.0) |
| **Net operating assets** | **164.8** |
| Cash and liquid deposits | 8.9 |
| Current Debt | (7.7) |
| Term debt | (14.0) |
| **Net bank debt** | **(12.8)** |
| Lease obligation | (11.9) |
| **Net debt** | **(24.7)** |
| **Net assets** | **140.1** |

The following points should be taken into consideration when reviewing the table above:

- ArborGen has a lease agreement for its research, development and headquarters facility at its head office in South Carolina, United States. The 20 year lease commenced in early 2012 and has 14.5 years remaining. The lease cash costs are US$1.4 million per annum. This lease is treated as a finance lease under NZ-IFRS, which results in the property and the lease liability being capitalised on the balance sheet. The net assets do not change as the accounting policy results in a neutral outcome (i.e. the assets are offset by the liability);
- all of ArborGen's existing financers have continued to provide funding lines post Rubicon's acquisition of the 66.66% of ArborGen that it did not already own. Cash and liquid deposits includes a US$6.0 million deposit with Synovus Bank to secure ArborGen's working capital facility; and
- ArborGen's intellectual property (US$107 million) reflects the value of its:
    - industry-leading germplasm, which is the output of more than (in aggregate) 100 years of tree improvement activity undertaken by ArborGen's predecessor partner companies (Fletcher Challenge, International Paper, and WestRock);
    - ArborGen's proprietary 'tree machine' platform;
    - extensive database of loblolly, radiata, and eucalyptus trials;
    - varietal and transgenic technology;
    - genomics platform; and
    - patent portfolio.

### 3.6.5 ArborGen Cash Flows

The cash flows for ArborGen for FY18F is summarised below:

**ARBORGEN - FREE CASH FLOW (US$ MILLIONS)**

| YEAR END 31 MARCH | 2018F |
|---|---|
| EBITDA less finance costs | 7.6 |
| Less: capital expenditure | (1.9) |
| Less: research and development | (5.8) |
| **Free cash flow (excluding movements in working capital)** | **(0.1)** |

## 3.7 Rubicon's Ownership

As of the date of this report, Rubicon had 487,908,343 shares on issue, held by approximately 6,190 shareholders. Rubicon's top shareholders are shown below:

**RUBICON – TOP SHAREHOLDERS AS AT 14 DECEMBER 2017**

| SHAREHOLDER | SHARES (MILLIONS) | % TOTAL |
|---|---|---|
| Knott Partners LP (David Knott and associates) | 137.7 | 28.2% |
| Libra Fund LP (Ranjan Tandon) | 86.1 | 17.7% |
| Perry Corporation | 39.3 | 8.0% |
| Third Avenue Management LLC | 38.2 | 7.8% |
| Sandell Asset Management | 22.0 | 4.5% |
| **Top 5 Shareholders** | **323.3** | **66.3%** |
| Other Shareholders | 164.6 | 33.7% |
| **Total** | **487.9** | **100.0%** |

On 29 June 2017, in order to strengthen its balance sheet and to assist with the funding of ArborGen, Rubicon issued 78.9 shares via share placement to raise US$12.5 million (NZ$17.2 million). The participants in the share placement were Libra and Knott, which acquired 56.78 and 22.08 million shares respectively. The top 5 shareholders own 66% of the shares on issue.

## 3.8 Rubicon's Share Price Performance

The share price and trading volume history of Rubicon shares since the share placement on 29 June 2017 is shown below:

**SHARE PRICE PERFORMANCE OF RUBICON SHARES AND VOLUME TRADED SINCE 30 JUNE 2017**


Rubicon is a thinly traded share. As at 13 December 2017 Rubicon had a market capitalisation of $95.1 million.

# 4 Valuation of Tenon Clearwood Limited Partnership

## 4.1 Summary

Grant Samuel's valuation of TCLP is outlined below:

**VALUATION SUMMARY TCLP (US$ MILLIONS)**

| | LOW | HIGH |
|---|---|---|
| TCLP Enterprise value | 51.3 | 61.5 |
| Less estimated net debt as at 31 December 2017 | (21.0) | (21.0) |
| **Value Equity (US$)** | **30.3** | **40.5** |
| *Rubicon's shareholding in TCLP* | *44.88%* | *44.88%* |
| **Value of Rubicon's shareholding** | **13.6** | **18.2** |

Grant Samuel makes the following observations regarding the valuation of TCLP:

- Grant Samuel has valued Rubicon's share of TCLP by estimating the full underlying value and multiplying the result by Rubicon's shareholding of 44.88%;
- the TCLP valuation has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time, assuming that potential buyers have full information. The valuation of TCLP is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control;
- the TCLP partnership structure contains standard pre-emptive provisions, which restricts the marketability of partner shareholdings;
- the valuation is based on TCLP management's latest EBITDA forecast for FY18 adjusted to current exchange rates as outlined in section 4.2 below;
- the New Zealand dollar has weakened recently against the US dollar and the Euro and this is the area where TCLP's greatest sensitivity lies. A weakening New Zealand dollar (all other things held constant) results in higher earnings for TCLP due to a large proportion of the cost base being denominated in New Zealand dollars and the majority of the revenue is denominated in foreign currencies;
- TCLP exhibited improved performance in FY16 and FY17 when compared with prior years, in part due to the recovery in US housing sector activity, the development of the European market for Clearwood's products, the benefit from the capital programme completed at the Taupo mill in 2016, and a lower $NZ:US exchange rate in part offset by higher log prices in NZ dollars. Although some orders from both the US and Europe have softened recently, this is believed to be temporary;
- Clearwood has a broad and balanced customer portfolio with limited reliance on any single customer;
- maintenance capital expenditure will be at or below depreciation for a number of years following the completion of the recent capital expenditure programme at the Taupo mill; and
- TCLP's unique long length wide clear products are currently in healthy demand globally.

## 4.2 Earnings for Valuation

The forecast EBITDA for the year ending 31 March 2018 is US$9.3 million. For the purposes of the valuation Grant Samuel has applied current exchange rates to the forecast. Although the current FX rates are lower than the average for the past 12 months, they have been very volatile over the last quarter in particular. However, the overall trend has been a weakening NZ dollar against Clearwood's key currencies. These changes to the underlying assumptions increases the forecast EBITDA for the year ending 31 March 2018 to US$10.25 million. The earnings for valuation is shown below:

**TCLP EARNINGS FOR VALUATION (US$000)**

| YEAR ENDED | 30 JUNE 2017 | 31 MARCH 2018F |
|---|---|---|
| Sales | 87.9 | 81.5 |
| Cost of sales | (76.0) | (68.7) |
| **Gross profit** | **11.9** | **12.8** |
| *Gross margin %* | *14%* | *16%* |
| Overhead expenses | (1.8) | (2.5) |
| **EBITDA** | **10.1** | **10.3** |
| Depreciation and amortisation | (1.6) | (1.6) |
| **EBIT** | **8.5** | **8.7** |

The earnings for valuation for the year ending 31 March 2018 is based on the following material assumptions:

- USD: NZD exchange rate average over the year of 0.685;
- EURO: NZD exchange rate average over the year of 0.585;
- log purchases of 290,500 tonnes; and
- sawmill production of 168,000 tonnes.

## 4.3 Preferred Methodology

Grant Samuel's valuation of TCLP has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence.

There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix 4.

## Preferred Approach

Grant Samuel has adopted the capitalisation of earnings methodology to determine a value range for TCLP. The primary reasons why the capitalisation of earnings method has been chosen are:

- multiples of earnings for comparable transactions are centred around a reasonably tight band; and
- discounted cash flow analysis relies on a detailed forecast of future earnings and cash flows. TCLP's management do not prepare long term forecasts. A discounted cash flow valuation is often used to cross check against the capitalisation of earnings methodology. As there were no long-term forecasts this was not possible.

## 4.4 Earnings Multiple Analysis

### 4.4.1 Sharemarket Evidence

The valuation of Clearwood has been considered in the context of the multiples implied by the share market ratings of listed companies with operations in the timber processing industry:

**SHARE MARKET RATINGS OF SELECTED LISTED COMPANIES[8]**

| COMPANY | MARKET CAP (MILLIONS) | EBITDA MULTIPLE[9] (TIMES) | | | EBIT MULTIPLE[10] (TIMES) | | |
|---|---|---|---|---|---|---|---|
| | | HISTORIC | FORECAST (1) | FORECAST (2) | HISTORIC | FORECAST (1) | FORECAST (2) |
| Canfor Corporation | CA$3,237 | 6.8 | 5.2 | 5.6 | 12.6 | 8.6 | 8.4 |
| Conifex Timber Inc. | CA$140 | 8.5 | 6.7 | 5.3 | 15.7 | 10.8 | 9.1 |
| Interfor Corporation | CA$1,422 | 8.0 | 6.1 | 6.1 | 18.0 | 12.2 | 12.1 |
| Lousiana Pacific Corporation | US$3,922 | 10.0 | 5.5 | 6.1 | 16.9 | 6.9 | 7.7 |
| West Fraser Timber Co Ltd | CA$5,967 | 9.6 | 6.6 | 6.6 | 13.4 | 8.8 | 8.4 |
| Western Forest Products Inc. | CA$994 | 6.3 | 6.3 | 5.7 | 8.4 | 9.6 | 7.4 |
| **Average** | | ***8.2*** | ***6.1*** | ***5.9*** | ***14.2*** | ***9.5*** | ***8.8*** |
| **Median** | | ***8.2*** | ***6.2*** | ***5.9*** | ***14.5*** | ***9.2*** | ***8.4*** |

Source: Source: Grant Samuel analysis[11]

The following points are relevant when considering the table above:

- all of the companies have a 31 December financial year end. Forecast (1) therefore represents the financial year ending 31 December 2017 and Forecast (2) represents the financial year ending 31 December 2018;
- detailed descriptions of each company are provided in Appendix 2. There are key differences between the operations and scale of the comparable companies when compared with Clearwood. With the exception of Conifex all of the listed timber processing companies are significantly larger than Tenon's Clearwood activities. Clearwood is smaller than any of the companies shown in the table, with market capitalisations of West Fraser and Canfor being approximately 30 and 60 times larger respectively of Clearwood's implied trading value and revenues are also materially larger than Clearwood;
- the implied multiples have been calculated based on closing share prices as at 8 December 2017. The share prices do not include a premium for control;

[8] The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

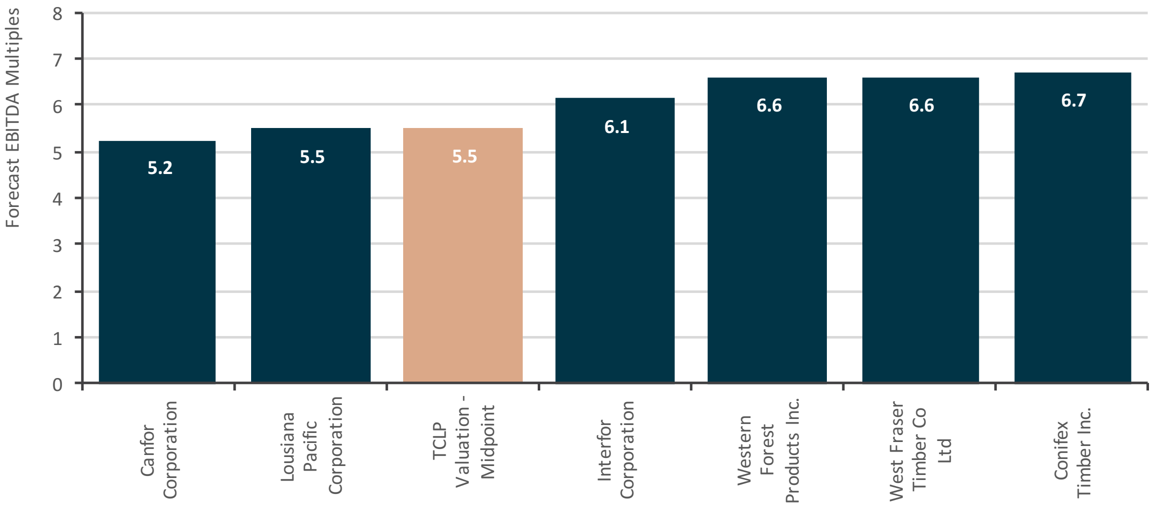
[9] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBIT.

[10] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA.

[11] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

- none of the listed timber processing companies operate primarily in the conversion and marketing of clear pruned resource, and none has the European focus that Clearwood has. Also, none of the companies have the same exposure to movements in the NZD: USD that Clearwood does. However, the multiples implied by the share prices of listed timber processing companies does provide a framework within which to assess the value of Clearwood; and
- listed timber processing companies are trading within a band of 5.2 to 6.7 times forecast EBITDA for the year ending 31 December 2017, with an average of 6.1 times. The implied multiples of forecast EBITDA are depicted below:

**IMPLIED MULTIPLES OF FORECAST EBITDA OF LISTED TIMBER PROCESSING COMPANIES**




### 4.4.2 Transaction Evidence – Timber Processing Businesses

The valuation of TCLP has been considered having regard to the earnings multiples implied by the prices at which broadly comparable companies and businesses have changed hands. The table below contains analysis of the earnings multiples implied by the prices of recent acquisitions of timber processing businesses:

**RECENT TIMBER PROCESSING TRANSACTIONS – MULTIPLES (TIMES)**

| DATE | TARGET | ACQUIRER | IMPLIED EV ($M) | HISTROICAL IMPLIED EV/EBITDA MULTIPLES |
|---|---|---|---|---|
| Sep-15 | Anthony Forest Products | Canfor | US$94 | 5.8 |
| Mar-15 | Simpson Lumber Company | Interfor | US$125 | 5.2 |
| Apr-17 | Tenon Clearwood | TCLP | US$55 | 5.3 |
| **Average** | | | | **5.3** |

Source: Source: Grant Samuel analysis, Capital IQ.

Larger businesses generally, but not always, tend to transact at higher multiples reflecting more robust and diversified earnings, stronger market positions and often enhanced financial and management disciplines, management team depth and systems. Brief descriptions of the transactions are set out below in Appendix 1.

### 4.4.3 Implied Multiples – TCLP

Grant Samuel's valuation of TCLP implies the following multiples:

**TCLP - IMPLIED MULTIPLES**

| | | VALUATION RANGE | |
|---|---|---|---|
| | EARNINGS (US$M) | LOW | HIGH |
| Multiple of FY17 EBITDA (Year to 30 June 2017) | 10.1 | 5.1 | 6.1 |
| Multiple of FY18F EBITDA (Year to 31 March 2018) | 10.3 | 5.0 | 6.0 |
| Multiple of FY17 EBIT (Year to 30 June 2017) | 8.5 | 6.0 | 7.2 |
| Multiple of FY18F EBIT (Year to 31 March 2018) | 8.7 | 5.9 | 7.1 |

**The evidence from the share prices of comparable listed companies and the prices of transaction involving comparable business or assets is consistent with the multiples implied by Grant Samuel's valuation of TCLP.**

## 5 Merits of the Proposed Transaction

### 5.1 Evaluation and Summary of the Proposed Transaction

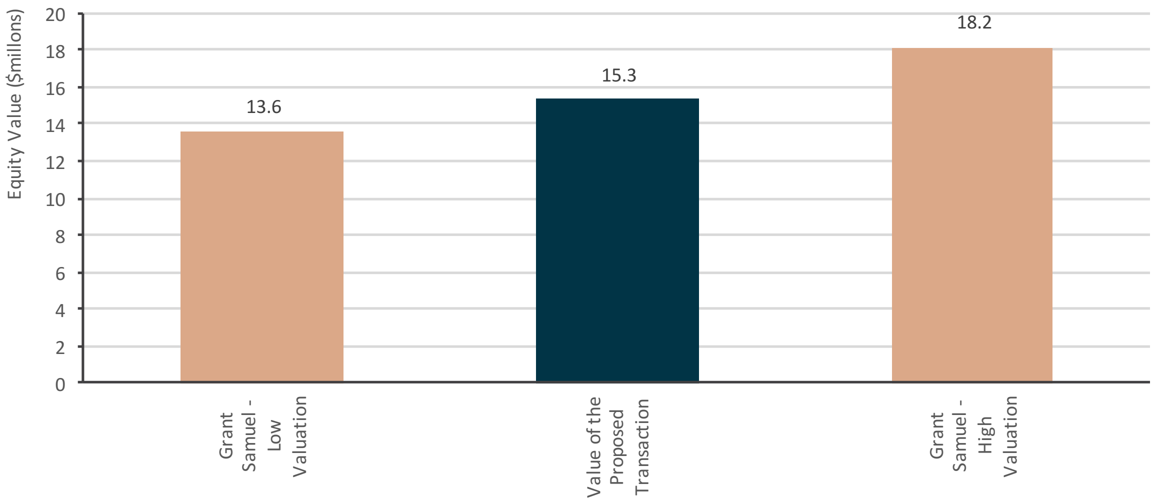
**In Grant Samuel's opinion, the full underlying enterprise value of TCLP is in the range of US$51.3 – US$61.5 million. Rubicon's pro rata share of the full underlying value is US$13.6 – US$18.2 million. The consideration for the Proposed Transaction is forecast to be approximately US$15.3 million which is within Grant Samuel's assessed range of Rubicon's 44.88% share of TCLP's full underlying value.**

### 5.2 Evaluation of the Sale Price and Terms of the Proposed Transaction

Grant Samuel has been requested to provide an opinion in accordance with Listing Rule 1.7.2 of the NZX Listing Rules as to whether the price and terms of the Proposed Sale of TCLP to the Prospective Purchasers are "fair" to Rubicon shareholders other than the purchasers of Rubicon's shares of TCLP who are also shareholders in Rubicon.

The Prospective Acquirers have offered to acquire Rubicon's share of equity for an estimated US$15.3 million, representing the cost of Rubicon's investment in TCLP in April 2017, plus Rubicon's share of the net cash generated by TCLP in the period from 28 April 2017 through to 31 December 2017, less Rubicon's share of a dividend to be paid in December 2017[12]. The Prospective Acquirers' offer is within Grant Samuel's valuation of Rubicon's share of the equity of US$13.6 – US$18.2 million.

**COMPARISON OF THE PROPOSED TRANSACTION PRICE WITH GRANT SAMUEL'S VALUATION RANGE**




Rubicon is being offered its pro rata share of the full underlying value. No discount is being applied to the offer price, for the Rubicon shareholding, which in these circumstances Grant Samuel believes is appropriate given all of the shareholders, including Rubicon paid that price in April 2017.

Accordingly, in Grant Samuel's opinion, for the purpose of Listing Rule 1.7.2 of the NZX Listing Rules the price and terms of the Sale of Rubicon's interest in TCLP are "fair" to Rubicon shareholders (other than Knott Partners LP and Libra Funds LP). This opinion is expressed only for the benefit of the shareholders of Rubicon shareholders not associated with TCLP.

### 5.3 Merits of the Proposed Transaction

- the sale of the minority interest in TCLP will result in Rubicon being a pure play forestry genetics company. With Rubicon now owning 100% of ArborGen and it being the only investment of Rubicon, it will provide investors with a high degree of transparency. These two factors may enhance the attractiveness of the shares to new investors. This observation is tempered by the fact that the five

[12] The net debt position will not be known until 10 January 2018, however Rubicon's share of the reduction in debt through to 31 December is currently estimated to be US$1.1 million.

largest shareholders, collectively hold 66% of the shares on issue, severely limiting liquidity and limiting the attractiveness to otherwise likely institutional investors;

- if the Proposed Transaction is approved, annual cost savings are estimated to be up to US$2.0 million. If the Proposed Transaction is not approved cost savings of this magnitude will not be able to be realised;
- Rubicon needs to make two final deferred-settlement payments that total US$15 million to complete the purchase of ArborGen. In addition, it also needs to repay US$6 million of subordinated debt notes. The cash on hand combined with the proceeds of the sale of TCLP will enable Rubicon to meet all of these payments. If the Proposed Transaction is not approved then Rubicon will need to find another source of funding in order to meet these payments;
- the sale of TCLP will remove exposure to the more volatile earnings of Clearwood which suffers from the vagaries of both fluctuating demand in the United States, movements in exchange rates and log prices;
- ArborGen and Clearwood operate independently from one another and there is no benefit to either from having a common shareholder;
- if the Proposed Transaction is not approved it is likely that Rubicon will need to find another source of funding in order to meet the outstanding US$15 million in deferred settlement payments (US$5 million on 31 December 2017, and US$10 million on 30 June 2018) relating to the ArborGen acquisition made earlier this year, and the repayment of the outstanding US$6 million subordinated note on 1 July 2018;
- as at 13 December 2017 Rubicon had a market capitalisation of NZ$95.1 million. The combined value of the Proposed Transaction and the price paid for the remaining 66.66% of the shares it did not own in ArborGen implies a market capitalisation that is broadly in line with its current market value. The price at which the shares will ultimately trade on-market, if the Proposed Transaction is approved, will depend on a range of factors, including New Zealand and global equity market conditions;
- Rubicon listed on 26 March 2001 and over the last 16 years it has not paid a dividend. The Proposed Transaction is unlikely to impact dividends in the immediate future; and
- Knott, Libra and their associates hold 45.9% of Rubicon's shares and are entitled to vote on the part of the resolution that requires the approval by 50% of those shareholders eligible to vote and voting as the Proposed Transaction may change the essential nature of Rubicon's business.

## 5.4 The likelihood of an alternative offer

Rubicon's Independent Committee did not deem it necessary to run a third party sales process in relation to its interest in TCLP. The rationale for that decision was based on the fact that Tenon had only earlier this year been through an exhaustive 18-month sales process for the Clearwood business supported by an international investment bank, which concluded in the sale to TCLP provided the best value outcome.

The Independent Directors did not believe there was any benefit to Rubicon shareholders (only considerable cost and time delay) to be derived from running a sales process for a 44.88% shareholding.

The pre-emptive rights contained in the TCLP Partnership Agreement also constrain the ability of Rubicon to freely sell its shareholding in TCLP. Under the TCLP Partnership Agreement, if Rubicon wishes to sell its shares to any other party other than the existing TCLP partners it must first offer its shares on the same terms to the existing TCLP partners and this offer must remain open for a period of 60 days.

Rubicon has also entered into an exclusivity agreement with the Prospective Purchasers. The prospects of an alternative offer are low when taking into account the sales process run earlier in the year, the existing pre-emptive rights and the exclusivity agreement.

## 5.5 Evaluation on the impact of Rubicon's earnings and financial position

Financial analysis comparing the status quo (i.e. the Proposed Transaction is not approved and Rubicon continues to hold 44.88% of TCLP) with the pro forma financials if the Proposed Transaction is approved is outlined below:

**FINANCIAL EVALUATION OF THE IMPACT OF THE PROPOSED TRANSACTION (US$ MILLIONS)**

| | STATUS QUO | IF THE PROPOSED TRANSACTION IS APPROVED[13] |
|---|---|---|
| **Forecast Financial Performance for 12 months to 31 March 2018** | | |
| Revenue | 128.8 | 48.0 |
| EBITDA (adjusted for depreciation and interest related to property) | 14.7 | 7.4[14] |
| EBIT (adjusted for depreciation and interest related to property) | 5.2 | (0.5) |
| Net Interest (excluding property leases) | (3.1) | (0.3) |
| Net operating cash flow | 3.4 | 0.2 |
| **Financial Position as at 30 September 2017** | | |
| Net tangible operating assets | 33.2 | 42.4 |
| Net debt (excluding property lease) | (37.8) | (2.0) |
| **Financial leverage ratios[15]** | | |
| Leverage ratio (net debt / EBITDA) | 3.9 | 0.3 |
| Interest cover (EBITDA / net interest) | 3.8 | 23.5 |
| Interest cover (EBIT / net interest) | 0.4 | (1.6) |

The following points should be taken into consideration when reviewing the table above:

- the pro forma financial performance and financial position included in the table above is on a consolidated basis and assumes Tenon has been liquidated, the two final ArborGen acquisition deferred-settlement payments totalling US$15 million, and the US$6 million repayment of subordinated debt notes have each been made;
- if the Proposed Transaction is approved the net bank debt is forecast to decrease from US$37 million to US$2 million. As at 30 September 2017 TCLP had net debt of US$20 million. If the investment in TCLP is sold, Rubicon receives approximately US$15.3 million for its 44.88% shareholding, and the net debt liability is left in TCLP;
- EBIT[13] is assumed to increase by US$2.0 million if the Proposed Transaction proceeds, due to cost savings assumed;
- the EBTIDA, EBIT and net interest has been adjusted to remove the impact of the accounting treatment of the ArborGen property lease as a finances lease; and
- if the Proposed Transaction is approved Rubicon's financial leverage ratios improve, with the exception being its Interest cover ratio (EBIT/ Net interest). The requirement to raise further capital is largely eliminated, given the Company's expectation that ArborGen is forecasting positive net operating cash flows (after interest payments) beginning the next financial year and onwards.

[13] Pre restructuring costs, which have not yet been determined, pending a Board decision on the final operating structure and model.

[14] This includes head office costs of US$0.7 million.

[15] Assumes 44.88% of TCLP's debt and earnings

## 5.6 Alternatives to the Proposed Transaction

The only real alternative is to not sell the 44.88% shareholding in TCLP. TCLP is a good investment, despite it being exposed to number of factors which causes volatility in its earnings. These include:

- the level of activity in the various sectors of the economies in which it competes, particularly in New Zealand, Europe, and North America;
- fluctuations in industrial output;
- commercial and residential construction activity;
- capital availability and interest rates;
- the housing markets (including additions to existing homes, repairs and new builds); and
- relative exchange rates (particularly EURO and US$).

In Grant Samuel's opinion, if Rubicon wanted to keep its shareholding in TCLP it is likely that it will need more capital to deleverage the company.

Rubicon made a US$12.5 million shareholder placement in June 2017 to its two largest shareholders, Libra and Knott, in connection with its move to 100% ownership of ArborGen. Without the support of two shareholders who control 45.9% of the shares in Rubicon, any capital raising could prove to be problematic.

## 5.7 The timing and circumstances surrounding the Proposed Transaction

The Tenon Board ran two separate sales processes over the past 24 months to sell each of its US distribution activities and its Clearwood operations. Following the US business' sale to Blue Wolf, Tenon then sold Clearwood to TCLP in April 2017. After the 18-month sales process for Clearwood, the best offer received was from TCLP. Rubicon never intended to be a long term holder of its shares in Clearwood but it participated as a limited partner in the consortium in order to allow the wind-down and liquidation of Tenon to occur. The Proposed Transaction will enable Rubicon to sell its shares in TCLP, thereby achieving the outcome Rubicon is seeking, which is to eliminate debt of Rubicon Limited, and become a listed entity that has a single focused asset, ArborGen.

## 5.8 Fairness of the Proposed Transaction for the purposes of the NZX Listing Rules

In Grant Samuel's opinion, based on the analysis of the merits outlined above, the terms of the Proposed Transaction are fair and reasonable to the shareholders of Rubicon not associated with Knott and Libra. In Grant Samuel's opinion, the information to be provided by Rubicon to its shareholders is sufficient to enable holders of those shares to understand all the relevant factors and make an informed decision as to the sale of Rubicon's interest in TCLP. The grounds for Grant Samuel's opinion are set out in this Report. Grant Samuel has obtained all information which it believes desirable for the purposes of preparing this report, including all relevant information which is or should have been known by any Director of Rubicon and made available to the Directors.

## 5.9 Acceptance or Rejection of the Proposed Transaction

Acceptance or rejection of the Proposed Transaction is a matter for individual shareholders based on their own view as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser(s).

GRANT SAMUEL & ASSOCIATES LIMITED

**14 December 2017**

## Appendix 1 Recent Transaction Evidence

### Transactions involving Building Product Distributors:

**Anthony Forest Products / Canfor**

In October 2015, Canfor acquired Anthony Forest Products (**AFP**) for US$94 million. AFP is engaged in the integrated forest products business offering its products through dealers in the United States and internationally. The company operates six facilities producing lumber, engineered wood and wood chips in Southern United States. Canfor identified AFP as a strategic acquisition, in particular to grow its presence in the southern United Sates. The purchase price implied a multiple of 5.8 times EBITDA.

**Simpson Lumber Company / Interfor**

In March 2015, Interfor acquired four sawmills from Simpson Lumber Company for US$125 million. The transaction increased Interfor's annual lumber production capacity by 30% and was highlighted as important to Interfor's growth strategy. As a result of the acquisition, two-thirds of Interfor's total annual capacity is now spread throughout the North and South of the US. The purchase price implied a multiple of 5.2 times EBITDA.

**Tenon / TCLP**

In April 2017, TCLP acquired 100.0% of Tenon Clearwood. The purchase price of US$55 million (debt free) implied a multiple of 5.3 times EBITDA.

## Appendix 2 Comparable Listed Companies

The following table provides a high level comparison of each of the companies to Clearwood:

**COMPARISON OF LISTED TIMBER PROCESSING BUSINESSES (CA$ UNLESS SPECIFIED OTHERWISE)**

| | CANFOR CORPORATION | CONIFEX TIMBER INC. | INTERFOR CORPORATION | WEST FRASER TIMBER CO | WESTERN FOREST PRODUCTS INC. | CLEARWOOD |
|---|---|---|---|---|---|---|
| Processing capacity (bbf) | 5.8 | 0.525 | 3.0 | 6.3 | 1.1 | 220m3 (000) |
| # of mills | 23 | 2 | 14 | 40 | 9 | 1 |
| # of employees | 6,260 | 600 | 2,860 | 7,800 | 2,080 | 275 |
| ***Profitability*** | | | | | | |
| FY17F Revenue (CA$b) | 4.583 | 0.459 | 1.934 | 5.085 | 1.156 | US$87.9m |
| FY17 EBITDA (CA$b) | 0.680 | 0.043 | 0.258 | 0.674 | 0.146 | US$10.1m |
| *EBITDA margin %* | *14.8%* | *9.3%* | *13.3%* | *19.2%* | *12.7%* | *11.5%* |

The following comments are relevant when considering the table above:

- West Fraser Timber Company Limited (**West Fraser**) is the largest timber processing company in North America, the largest plywood producer in Canada and the third largest pulp producer in Canada. The company has 28 timber mills, 7 panel mills and 5 pulp & paper mills. Approximately two thirds of West Fraser's revenue are derived from lumber products with the remainder coming from pulp & paper and wood panels. Approximately 80% of revenue is generated in North America and 20% from China and other Asian countries;
- Canfor Corporation Limited (**Canfor**) is the third largest timber processing company in North America with 23 sawmills, four energy plants, three engineered product facilities and four pulp mills. Approximately two thirds of its revenue are generated in North America with the remaining third of revenue from Asia (primarily China and Japan). Canfor's pulp and paper segment business is one of the largest producers of softwood kraft pulp in Canada;
- Interfor Corporation (**Interfor**) is the fourth largest timber processing company in North America with 14 sawmills (9 in the US and 5 in British Colombia). Two-thirds of the company's processing capacity is located in the US (predominantly in the Southern states). Approximately 80% of Interfor's products are commodity grade. 80% of Interfor's sales are made in North America with key export markets for the remaining 20% being Japan and China;
- Western Forest Products Inc. (**Western**) is the eleventh largest timber processing company in North America with nine sawmills. Approximately 65% of Western's revenue is from the North American market with Japan, China, other Asian countries and Europe making up the remaining 35%; and
- Conifex Timber Inc. (**Conifex**) is much smaller than the other listed North American timber processing companies with market capitalisation of CA$140 million.

## Appendix 3 Overview of the New Zealand Timber Processing Industry

### Introduction

The timber industry is an integral part of the New Zealand economy contributing an annual gross income of around $5 billion (3% of New Zealand's GDP) and directly employing approximately 20,000 people. Wood products are New Zealand's third largest export earner (behind dairy and meat) with New Zealand sawmills exporting approximately 2 million cubic metres per annum. New Zealand's largest export markets are China, Australia and the US. New Zealand timber also has a strong presence throughout Asia, the Middle East, Europe and the Pacific.

### Radiata Pine

New Zealand timber primarily comes from renewable plantation forests that are managed on a sustainable basis with the predominant species being Radiata Pine. Radiata is considered a globally unique product and is one of the most versatile softwoods with superior machining and finishing qualities. Furthermore, its uniform appearance means that it is an easy wood to paint and stain, adding to its popularity.

Due to New Zealand's unique growing conditions and pruning regime, New Zealand Radiata produces wide, long length clear fibre (i.e. knot free), which can be converted into high-value clear finished products, making them highly desirable in the US NHC and Pro-dealer markets.

The pruning regime in New Zealand sees the trees pruned to 5-8 metres each year up to the age of 10. As a result of this process, clear wood forms around the knots where the branches have been pruned and creates a log consisting of straight-grained clear wood suitable for high-value appearance applications. Although the pruned part of the tree consists of only approximately 15% of the height of the full-grown pine tree, it typically equates to approximately 50% of the total value.[16]

### New Zealand Timber Supply

The Central North Island is the largest forest area in New Zealand.

**NZ PLANTED FOREST AND STANDING VOLUME**

| | PLANTED HECTARES (000) | STANDING VOLUME (MILLION $M^3$) |
|---|---|---|
| Northland | 186 | 58 |
| Central North Island | 568 | 182 |
| East Coast | 156 | 54 |
| Hawkes Bay | 134 | 42 |
| Southern North Island | 160 | 54 |
| Marlborough | 167 | 42 |
| West Coast | 31 | 6 |
| Canterbury | 97 | 21 |
| Otago Southland | 206 | 41 |
| **Total NZ** | **1,705** | **500** |

[16] Source: NZ Ministry of Primary Industries

## Appendix 4 Valuation Methodology Descriptions

### Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the share market. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the share market. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and share market prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

## Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessity involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

## Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Rubicon's case.

## Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value TCLP. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

## Appendix 5 Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
    - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
    - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
    - the company's own performance and growth trajectory;
    - rationalisation or synergy benefits available to the acquirer;
    - the structural and regulatory framework;
    - investment and share market conditions at the time, and
    - the number of competing buyers for a business.
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
    - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and

- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

## Appendix 6 Qualifications, Declarations and Consents

### Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 450 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Simon Cotter, BCom, MAppFin, FFin, and Jake Sheehan, BCom (Hons). Each has a significant number of years of experience in relevant corporate advisory matters.

### Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Rubicon. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of TCLP. However, in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Grant Samuel has not undertaken a due diligence investigation of Rubicon or TCLP. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Rubicon. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of Rubicon prepared by the management of Rubicon. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for Rubicon. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Rubicon is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;

- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Rubicon or TCLP, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of TCLP.

## Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Proposed Transaction. Grant Samuel expressly disclaims any liability to any Rubicon security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Notice of Meeting issued by Rubicon and has not verified or approved any of the contents of the Notice of Meeting. Grant Samuel does not accept any responsibility for the contents of the Notice of Meeting (except for this report).

## Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Rubicon that could affect its ability to provide an unbiased opinion in relation to the Proposed Transaction. Grant Samuel had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Samuel will receive no other benefit for the preparation of this report.

## Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Rubicon and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Rubicon and contained within this report is sufficient to enable Rubicon security holders to understand all relevant factors and make an informed decision in respect of the Proposed Transaction. The following information was used and relied upon in preparing this report:

- Publicly Available Information
  - Rubicon Annual Reports for FY14, FY15, FY16 and FY 17;
  - Capital IQ website to identify comparable transactions;
  - Substantial Product Holder notices issued by Rubicon's major shareholders; and
  - Rubicon's recent Public Filings.

- Non Public Information
  - Tenon Clearwood Management Reports April-October 2017; and
  - Management forecasts for Tenon Clearwood and Taupo Wood Solutions for year ending 31 March 2018.

## Declarations

Rubicon has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Rubicon has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Rubicon are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the Independent Directors of Rubicon. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

## Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in Notice of Meeting to be sent to security holders of Rubicon. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

RUBICON